

Audit and Governance Committee Agenda

Date: Tuesday 5th September 2017 at 14.00pm

Venue: Cavendish House, Teesdale Business Park, Stockton-On-Tees, TS17 6QY

Membership:

Chair - Councillor Nicola Walker (Middlesbrough Borough Council)

Vice Chair - Councillor Michael Dick (Redcar & Cleveland Borough Council)

Councillor Barry Woodhouse (Stockton-On-Tees Borough Council)

Councillor Charles Johnson (Darlington Borough Council)

Councillor Sandra Belcher (Hartlepool Borough Council)

Colin Fyfe (Independent member)

Paul Bury (Independent member)

AGENDA

- 1. Introductions**
- 2. Apologies for absence**
- 3. Declarations of interest**
- 4. Minutes**
The minutes of the meeting held on 28th June 2017 for confirmation and signature
- 5. Terms of Reference**
Report
- 6. Internal Audit Report**
Report
- 7. External Audit Completion Report and value for money opinion**
Report
- 8. Statement of Accounts**
Report
- 9. Annual Governance Statement**
Report

Audit and Governance Committee Agenda

10. **Risk Management Strategy and Corporate Risk Register**
Report
11. **Treasury Management Strategy Annual report**
Report
13. **Forward Plan**
Attached
14. **Date of the next meeting**
1st December 2017 at 10.00am – Cavendish House, Stockton-On-Tees

Audit and Governance Committee Agenda

Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people please contact: Sharon Jones – 01642 524580 – sharon.jones@teesvalley-ca.gov.uk

Members' Interests

Members (including co-opted Members) should consider whether they have a personal interest in any item, as defined in paragraphs 9 and 11 of the Tees Valley Combined Authority's (TVCA) code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code.

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the TVCA he/she must then, **in accordance with paragraph 18** of the code, consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest and the business:-

- affects the Member's financial position or the financial position of a person or body described in **paragraph 17** of the code, or
- relates to the determining of any approval, consent, licence, permission or registration in relation to the Member or any person described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a Member with such an interest may make representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise (**paragraph 19** of the code).

Disclosable Pecuniary Interests

It is a criminal offence for a Member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted)(**paragraph 20** of the code).

Members are required to comply with any procedural rule adopted by the TVCA which requires a Member to leave the meeting room whilst the meeting is discussing a matter in which that Member has a disclosable pecuniary interest (**paragraph 21** of the code).

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**TEES VALLEY COMBINED AUTHORITY
AUDIT AND GOVERNANCE COMMITTEE**

**Cavendish House, Teesdale Business Park, Stockton-On-Tees TS17 6QY
Wednesday 28th June 2017 at 3.00pm**

MEETING

ATTENDEES

Members

Cllr Barry Woodhouse (Chair)	Stockton on Tees Borough Council	SBC
Cllr Matthew Storey	Middlesbrough Borough Council	MBC
Cllr Charles Johnson	Darlington Borough Council	DBC
Colin Fyfe	Independent Member	

Apologies for absence

Cllr Nicola Walker	Middlesbrough Borough Council	MBC
Paul Bury	Independent Member	

Officers

Garry Cummings	Chief Finance Officer	TVCA
David New	Senior Finance Manager	TVCA
Martin Skipsey	Procurement and Governance Manager	SBC
Andy Bryson	Finance Manager	SBC
Sharon Jones	Governance & Scrutiny Officer	TVCA

Also in Attendance

Mark Kirkham	Partner	Mazars LLP
Gareth Roberts	Senior Manager	Mazars LLP

**AGC INTRODUCTIONS
01/17**

Introductions from Committee members and officers were made. It was noted that the meeting was not quorate as 5 of 7 members are required to attend for this. The meeting was continued with the agreement that any items requiring decision may need to be brought back to the next meeting.

**AGC
02/17** **DECLARATIONS OF INTEREST**

There were no interests declared.

**AGC
03/17** **APPOINTMENT OF CHAIR**

Councillor Barry Woodhouse was appointed as temporary Chair for this meeting. It was noted that the Committee need to nominate a permanent Chair and Vice Chair but that this will need to be carried out at a quorate meeting and will therefore be deferred until the next meeting

**AGC
04/17** **MINUTES**

Consideration was given to the minutes of the meeting held on 29th March 2017

Resolved that the minutes be confirmed and signed as a correct record.

**AGC
05/17** **TERMS OF REFERENCE**

It was explained that following the Mayoral election in May the Committee has been reappointed in line with the new Constitution and Legislation, and that the Committee is politically balanced. There have also been two independent members appointed, one to provide advice in relation to standards matters and one to assist the Committee in the discharge of its financial functions. The terms of reference for the Committee have been drafted based on suggested terms of reference published by CIFPA.

Resolved that terms of Reference will need to be brought to the next meeting for agreement by a quorate Committee

**AGC
06/17** **INTERNAL AUDIT ANNUAL REPORT**

Consideration was given to a report showing the current position in respect of the 2016/2017 audit plan and the results of the work undertaken. The report included the Head of Internal Audits annual opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes. It was highlighted that the Combined Authority continues to have an appropriate and effective system of internal control, upon which it can place reasonable reliance to deliver its objectives.

Discussion took place around the areas for Audit and how these are agreed/decided. It was explained that there are a set of standard areas which are required to be reviewed annually, others are determined by the risk assessment score they are given. The 5 year Audit plan shows details of which areas will be assessed and how regularly.

Resolved that the internal Audit report is noted

**AGC
07/17** **EXTERNAL AUDIT PROGRESS REPORT**

Consideration was given to a report regarding External Audit and the progress made against the Audit Plan 2016/17

It was explained that External Audit is currently halfway through its process and at this stage there have been no issues highlighted. The Audit will continue and the results will be presented fully once complete.

A question was raised regarding the application of the going concern concept to the Combined Authority to which colleagues from Mazar's responded.

Resolved that the External Audit progress report is noted and a final report will be submitted to the Committee upon completion of the Audit.

**AGC
08/17** **ANNUAL GOVERNANCE STATEMENT**

The Accounts and Audit Regulations 2015 require authorities to conduct a review at least once a year of the effectiveness of their governance framework and produce an Annual Governance Statement.

Consideration was given to a report regarding the draft Annual Governance statement for 2016/17. The Statement of accounts and Annual Governance statement will be presented for Cabinet approval on 29th September. Following Cabinet approval the Governance Statement will be signed by the Mayor and the Managing Director.

A question was raised regarding the Combined Authority sharing Stockton Borough Council's services and staff and whether this posed any risk with regard to confidentiality or conflict of interest. It was explained that this, whilst providing efficiencies and economies of scale, some officers do hold dual roles but they are very much independent, with segregation of responsibilities in place and professional standards followed.

Resolved that:

- The Annual Governance statement is noted
- A Combined Authority Organisation Chart be circulated to the Audit & Governance Committee

**AGC
09/17** **STATEMENT OF ACCOUNTS**

Consideration was given to a report regarding the draft statement of accounts for 2016/17. The accounts have been completed in accordance with the "Code of Practice on Local Authority Accounting in the United Kingdom 2016/17" which is prepared under International Financial Reporting Standards.

Discussion took place around the following areas:

- Brexit and the impact of this – it was explained that there is a risk to the Combined Authority from Brexit as a large amount of

European funding is provided to the Tees Valley and it is at this stage unknown whether this funding will continue

- Treasury Management Activity – the Combined Authority Treasury Management arrangements are provided by Arlingclose who tendered and were appointed in January 2017. The Combined Authority has a treasury management strategy in place which was approved by Cabinet annually.
- Reconciliation of first year statements – it was explained that Mazars were the external Auditors for the LEP and TVU and therefore hold the historical accounts that underpin the opening balances for the Tees Valley Combined Authority.

Resolved that the Statement of Accounts report be noted

**AGC
10/17** **RISK MANAGEMENT STRATEGY AND CORPORATE RISK REGISTER**

Consideration was given to a report regarding the Combined Authority Risk Management Strategy and the Corporate Risk Register at the end of the first quarter of 2017/18.

It was explained that the strategy sets Tees Valley Combined Authority's approach to risk management and integrates the requirements of the Single Pot assurance Framework.

Attention was drawn to the two risks assessed as high in the quarter to 30 June 2017.

A question was asked regarding whether the Risk Register Matrix will show movement of risk. It was explained that this will be shown in future reports.

Resolved that the report be noted but that the Committee is unable to approve the strategy as the meeting is non quorate. This item will be brought back to the next meeting of the Committee.

**AGC
11/17** **2016/17 AUDIT STRATEGY MEMORANDUM**

Consideration was given to a report presented by colleagues from Mazars regarding the Audit Strategy memorandum.

Resolved that the report be noted

**AGC
12/17** **WORK PROGRAMME**

Consideration was given to the work programme for the Committee.

It was agreed that the work programme will need to be amended for the next meeting to account for the items that will need to be brought back for approval. It was also agreed that the next meeting of the

Committee, scheduled for 26th September, be brought forward to allow the Committee to see the final statement of accounts and annual governance statement in advance of these being approved by Cabinet at their meeting on 29th September.

Resolved that:

- The work programme be amended accordingly
- The next meeting is rescheduled for early September

DATE OF NEXT MEETING

The date of the next meeting is to be agreed

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AGENDA ITEM 5

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

5th September 2017

REPORT OF THE CHIEF FINANCIAL OFFICER

TERMS OF REFERENCE

SUMMARY

The Audit and Governance Committee are required to agree the terms of reference for the Committee for 2017/18.

RECOMMENDATIONS

It is recommended that the Committee agree the terms of reference for the Audit and Governance Committee for 2017/18.

DETAIL

1. The terms of reference of the Audit and Governance Committee for 2017/18, will be included in the Constitution of the Tees Valley Combined Authority and are shown in **Appendix 1**.
2. Following the mayoral election the Committee has been reconstituted in line with the new Constitution approved last month. The membership of the Committee includes an independent person for the purposes of providing advice in relation to standards matters under the Localism Act 2011, and one other independent person to assist the Committee in the discharge of its financial functions.

FINANCIAL IMPLICATIONS

3. None

LEGAL IMPLICATIONS

4. None

RISK ASSESSMENT

5. This Work Programme Report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

6. None

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Audit and Governance Committee – Terms of reference

1. Our audit committee is a key component of Tees valley Combined Authority's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

2. The purpose of our audit committee is to provide independent assurance of the adequacy of the risk management framework and the internal control environment. It provides independent review of governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

3. To review the Combined Authority's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

4. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Combined Authority's framework of governance, risk management and control.

5. To consider the Combined Authority's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

6. To consider the Combined Authority's framework of assurance and ensure that it adequately addresses the risks and priorities of the Combined Authority.

7. To agree the risk management strategy and monitor the effective development and operation of risk management in the Combined Authority.

8. To monitor progress in addressing risk-related issues reported to the committee.

9. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

10. To review the assessment of fraud risks and potential harm to the Combined Authority from fraud and corruption.

11. To monitor the counter-fraud strategy, actions and resources.

Internal audit

12. To approve the internal audit charter.
13. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
14. To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
15. To approve significant interim changes to the risk-based internal audit plan and resource requirements.
16. To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
17. To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a) Updates on the work of internal audit including key findings, issues of concern and action In hand as a result of internal audit work.
 - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
 - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
18. To consider the head of internal audit's annual report:
 - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the Combined Authority's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
19. To consider summaries of specific internal audit reports as requested.

20. To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

21. To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

22. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.

23. To support the development of effective communication with the head of internal audit.

External audit

24. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

25. To consider specific reports as agreed with the external auditor.

26. To comment on the scope and depth of external audit work and to ensure it gives value for money.

27. To commission work from internal and external audit.

28. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

29. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Combined Authority.

30. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

31. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.

32. To report to full Combined Authority on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

Standards

33. To promote and maintain high standards of conduct by Combined Authority members and co-opted members.

34. To ensure the Combined Authority members and co-opted members observe the Members' Code of Conduct.

35. To advise the Combined Authority Cabinet on the adoption or revision of the Members' Code of Conduct.

36. To monitor complaints received by the Combined Authority in respect of Member conduct.

37. To conduct hearings following investigation and determine complaints made against members and co-opted members.

38. Where a member or co-opted member is found to have failed to comply with the Code of Conduct to take such action as may be necessary to promote and maintain high standards of conduct, in accordance with the powers available to the Committee.

AGENDA ITEM 6

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

5th SEPTEMBER 2017

REPORT OF THE CHIEF FINANCIAL OFFICER

INTERNAL AUDIT PROGRESS REPORT

SUMMARY

This report provides members with an update of the work carried out by the Internal Audit Section and the progress made against the Audit Plan 2017/18.

RECOMMENDATIONS

It is recommended that:-

1. The current position as identified in the attached update report is noted.

DETAIL

Background

1. Stockton-On-Tees Borough Council Internal Audit Services provide assurance to the Tees Valley Combined Authority and is an independent appraisal function established to objectively examine, evaluate and report on the adequacy of internal controls. This role ensures that there is proper economic, efficient and effective use of resources. It also ensures that the Authority has adequate accounting records and control systems.

Current Position

2. A plan of work was agreed with this committee on 29 March 2017. The service has in place an audit charter which outlines how the service will be delivered to the combined authority and was also agreed on 29 March 2017. Services are being delivered to the combined authority in-line with this charter.
3. The attached update report shows the current position in respect of the progress against the 2017/18 audit plan and the results of the work that has been undertaken.

FINANCIAL IMPLICATIONS

None

LEGAL IMPLICATIONS

None

RISK ASSESSMENT

The results of the work undertaken by Internal Audit can be used by managers to assess their risk exposure, recommendations are made where there is perceived to be unacceptable risk.

CONSULTATION

N/A

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INTERNAL AUDIT AUDIT COMMITTEE UPDATE REPORT

2017/18

1 AUDIT PROGRESS

1.1 Shown below is a list of all the audit engagements undertaken during the year together with their assurance opinion. An explanation of any High priority recommendations is provided.

2017/18 Audit Plan Current Position as at 31 July 2017

Audit					Recommendations			
ID	Name	Audit Type	Status	Assurance	L	M	H	C
2524	Virtualisation	Planned	Not Started					
2526	VAT	Planned	Not Started					
2528	Server Operating Systems	Planned	Not Started					
2535	Payroll & Absence Recording	Planned	Not Started					
2536	Environmental Controls	Planned	Not Started					
2539	Treasury Management	Planned	On-Going					
2542	Debtors	Planned	On-Going					
2543	Data Protection	Planned	Not Started					
2544	Creditors	Planned	On-Going					
2545	Cloud Computing	Planned	Not Started					
2549	Recruitment Services	Planned	Not Started					
2552	Active Directory	Planned	Not Started					
2558	Business Continuity & Disaster Recovery	Planned	Not Started					
2581	Absence Management	Planned	On-Going					
2559	Officer Payments - Mileage	Planned	On-Going					
2564	Freedom of Information	Planned	On-Going					
2568	ICT Backup & Recovery / Disaster Recovery	Planned	Not Started					
2569	Outlook/Email	Planned	Not Started					
2581	Bank Reconciliation	Planned	Not Started					
N/A	Grant Audit Work	Planned	On-Going					

Audit Completion Report

Tees Valley Combined Authority



TEES VALLEY
COMBINED
AUTHORITY

For the year ended 31 March 2017

4 August 2017



MAZARS

Contents

1. Executive summary	3
2. Significant findings	5
3. Internal control recommendations	7
4. Value for Money Conclusion	8
Appendix A – Summary of misstatements.....	12
Appendix B – Draft management representation letter.....	14
Appendix C – Draft audit report.....	17
Appendix D – Independence	20

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Authority are prepared for the sole use of the Authority and we take no responsibility to any Member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. Executive summary

Purpose of this report

The Audit Completion Report sets out the findings of our audit of Tees Valley Combined Authority (the Authority) for the year ended 31 March 2017, and forms the basis for discussion at the Audit and Governance Committee meeting on 5 September 2017.

The scope of our work and overall summary

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and include the matters outlined in the following table.

Financial statements	<p>In our Audit Strategy Memorandum we reported that materiality for the financial statements as a whole was set at £668,000. We have reviewed our assessment as part of our continuous planning processes and have set materiality at £668,000. Our clearly trivial threshold for reporting matters to you has been set at £20,000.</p> <p>We communicated identified significant risks to you as part of our Audit Strategy Memorandum in June 2017. Section 2 of this report outlines the work we have undertaken, and the conclusions we have reached, for each significant risk.</p> <p>At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our draft auditor's report is provided in Appendix C.</p>
Identified misstatements	<p>Our work identified a small number of misstatements that have been discussed with management. A summary of the identified misstatements is provided in Appendix A.</p>
Value for Money	<p>At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate concluding that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our draft auditor's report is provided in Appendix C.</p>
Whole of Government Accounts (WGA)	<p>We anticipate completing our work on your WGA submission, in line with the group instructions issued by the National Audit Office, by the deadline of 30 September 2017.</p>

The status of our work

At the end of July, in line with our planned timeline agreed with officers to get ready for the new deadlines coming into effect in 2017/18, we have substantially completed our audit in respect of the financial statements for the year ended 31 March 2017.

At the time of preparing this report, there are a small number of matters that remain outstanding:

Outstanding matter	We are finalising our work in a small number of areas of the Financial Statements and discussing our findings with management; including our work on: <ul style="list-style-type: none">• Review of the Narrative Report.• Note 18; Grant Income.	Outstanding matter	We have recently received the information we require from the local government pension fund administering authority's auditor, and as such we intend to review it and consider the assurance and implications for our audit.
		Outstanding matter	Review and closure processes, including checking the amended version of the financial statements produced by finance as a result of our audit.

The following matters are outstanding and are usually done just prior to signing the audit opinion (planned for September 2017):

Outstanding matter	Review of Events after the Balance Sheet date.	Outstanding matter	Final review and closure processes.
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We will provide an update to you in relation to these outstanding matters in a follow up letter prior to giving our opinion.

2. Significant findings

This section sets out the significant findings from our audit and provides information on a number of matters that we are required to report to you by ISA 260 'Communication with those charged with governance'.

Significant risks

As part of our planning procedures we considered the risks of material misstatement in the Authority's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we will mitigate these risks. No new risks have been identified since we issued our Audit Strategy Memorandum. The significant risks identified, and our conclusions against each are outlined below.

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates affecting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention and identified no indication of management override.</p>
<p>Recognition of grant income</p> <p>Grant income received by the Authority from Government and other grant paying bodies often includes specific conditions that must be met before the Authority should recognise the income in its accounts. Because of the nature of grant income with conditions, there is a risk that the Authority recognises grant income in the incorrect reporting year.</p>	<p>We performed specific procedures to provide assurance that grant income is included in the correct year.</p>	<p>Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.</p>

Valuation of the defined benefit pension scheme and pensions estimates (IAS19)

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

We identified any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we:

- evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and
- considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally commissioned by the NAO.

Subject to our review of the response from the local government pension scheme auditor, our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention. Our work identified no indication of material estimation error in respect of pensions.

Qualitative aspects of the Authority's accounting practices

We are required to communicate to you our views on the significant qualitative aspects of the Authority's accounting practices, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	<p>We have reviewed the Authority's accounting policies and disclosures and found these to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code).</p> <p>In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2017.</p>
Quality of the draft financial statements	<p>We received draft financial statements from management ahead of the deadline, and found them to be of good quality overall.</p>
Quality of supporting working papers	<p>Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. We found the working papers to be good quality overall and the finance team responsive to our queries. We will meet with the finance team prior to next year's audit to discuss any further areas where other improvements could be made in order to further streamline the audit process.</p>

Significant matters discussed with management

A £3 million grant was previously paid to Middlesbrough Borough Council in 2015/16 by Tees Valley Unlimited. In 2016/17, it was decided to convert this to a long term loan. In order to reflect a long term loan/debtor in the 2016/17 accounts, a corresponding entry has been included in income received. We have challenged the treatment with management and have concluded that the proposed treatment is not unreasonable. We have not discussed any other significant matters with management, other than usual meetings and discussions to obtain audit evidence and challenge management judgments.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

3. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit

Significant deficiencies in internal control

Our 2016/17 audit has not identified any significant deficiencies to report.

procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below.

4. Value for Money Conclusion

Our approach to Value for Money

We are required to form a conclusion as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p><i>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</i></p> <ul style="list-style-type: none"> • Constitution in place which is available on the Authority's website, updated February 2017 to reflect move to an elected Mayor. • Constitution includes financial regulations and Assurance Framework, Delegation to officers and Code of Conduct. • Devolution deal also available on the Authority's website. • Authority has a Strategic Economic Plan (SEP) plan in place for the period 2016 to 2026 available on the Authority's website (updated December 2016). • New Authority therefore new management team in place in 2016 including Managing Director and three other directors. <p><i>Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</i></p> <ul style="list-style-type: none"> • No data quality issues in respect of performance information we are aware of. 	Yes

	<ul style="list-style-type: none"> • Audit and Governance Committee has met only once in the year in March 2017, but has undertaken its work programme for the year with a backward look, and agreed a forward work programme. • Medium term planning is undertaken and plans are in place; current MTFP covers the period 2017/18 to 2020/21, and is updated at least annually. Initial budget and Medium Term Financial Plan (MTFP) was set at the start of the year and this went to the April 2016 Board. • Update on the financial position, proposed 2017/18 budget and updated MTFP presented to the Board in January 2017. • Separate Investment Plan in place – approved by the Board in March, details funding available and how planning to deliver the SEP. <p><i>Reliable and timely financial reporting that supports the delivery of strategic priorities</i></p> <ul style="list-style-type: none"> • Periodic reporting to members in the year, at start of the year and January 2017 (also considered by the Overview & Scrutiny Committee). • Authority plans, strategies and MTFP are all on the Authority’s website. Includes section on future plans/developments and the role of the Combined Authority. • MTFP is updated as part of the current year’s budget setting process. <p><i>Managing risks effectively and maintaining a sound system of internal control</i></p> <ul style="list-style-type: none"> • Management assurance framework; May 2016 and updated August 2016 Risk register in place for individual Local Growth Fund Programme cost which is maintained by the Managing Director and the Chief Financial Officer. • Devolution deal implementation Plan incorporates high level risks. • Detailed presentation on risk management arrangements and key risks to March 2017 Audit and Governance Committee. • Programme of Internal Audit work at the Authority, this is being delivered by Stockton BC’s IA function (under delegated arrangements). • Arrangements to produce 2016/17 Annual Governance Statement are in place, and separate internal audit opinion prepared for the Authority. 	
Sustainable resource deployment	<p><i>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</i></p> <ul style="list-style-type: none"> • First year of the Authority, there are however no significant gaps in funding in the MTFP. MTFP updated January 2017. • Nature of the Authority’s funding and expenditure (i.e. largely grant income which is then paid out to approved schemes linked to the SEP) does not indicate any significant risk to achievement of strategic priorities in the short term. <p><i>Managing and utilising assets effectively to support the delivery of strategic priorities</i></p>	Yes

	<ul style="list-style-type: none"> • Authority does not have an significant assets of its own and no items meet the capitalisation threshold and hence no PPE, and as such does not have an 'asset register', but does maintain a list of equipment, IT etc. • Significant element of the Authorities funding is being used to deliver capital projects. These assets are however not held by the Authority • SEP identifies future large scale capital schemes/priorities. <p><i>Planning, organising and developing the workforce effectively to deliver strategic priorities</i></p> <ul style="list-style-type: none"> • HR and payroll functions provided by Stockton BC and Authority relies on HR policies and procedures shared with the BC. A capacity review was undertaken by the MD in 2016, and the Authority is continuing to review capacity as its responsibilities continue to develop. 	
Working with partners and other third parties	<p><i>Working with third parties effectively to deliver strategic priorities</i></p> <ul style="list-style-type: none"> • Nature of the Authority is such that in order to deliver its strategic priorities it is required to work closely with the 5 LAs on Teesside and other public and private organisations. • Authority structure includes the Teesside LEP (transferred from Stockton BC as a 01/04/2016) – Tees valley Unlimited. The LEP continues to have a separate Board and members of the LEP are none voting members of the Authority (other than the Chair who is a voting member). • LEP members are drawn from a wide range of other public bodies (i.e. education) and private companies. • SEP and website identify organisations that the Authority is working with in order to achieve its strategic priorities – i.e. Tess Valley Strategic Transport Plan – Connecting the Tees Valley. <p><i>Commissioning services effectively to support the delivery of strategic priorities</i></p> <ul style="list-style-type: none"> • Overall aim of the Authority and the Tees Valley Local Enterprise Partnership is to maximise the amount of investment in Tees Valley, to achieve economic growth and to create more jobs and success for the area. How the Authority plans to deliver this is set out on its website and in its SEP. • This is in the short term being delivered through provision of grants to other external bodies (i.e. Local Authorities, Education establishments, and local business) rather than through direct commissioning of its own services. 	Yes

Procuring supplies and services effectively to support the delivery of strategic priorities

- This has in part been delegated by the Authority to Stockton BC.
- The Authority has written procedures for procuring products and services, which are within its Constitution (part 6).

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. We did not identify any significant risks at the planning stage of our audit, and as such did not report any in our Audit Strategy Memorandum. We have kept this under review throughout our audit and are satisfied that there are no significant risks apparent in respect of VFM.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix C states that we intend to issue an unqualified Value for Money conclusion for the 2016/17 financial year.

Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £20,000, are set out below.

The first table outlines the identified misstatements which management has assessed as not being material, either individually or in aggregate to the financial statements, and does not currently plan to adjust.

The second table outlines the misstatements management has agreed to adjust.

Unadjusted misstatements 2016/17				
	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1.	Dr: CIES Expenditure	338		
	Cr: Balance Sheet; Reserves			338
Relating to expenditure in 2016/17 that was not accrued in the 2016/17 Financial Statements.				

Adjusted misstatements 2016/17				
	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1.	Dr: Income	35,121		
	Cr: Earmarked Reserves / MIRS			35,121
Relating to the treatment of the balances brought forward in relation to Tees Valley Unlimited (TVU), and which were transferred from Stockton-on-Tees Borough Council as accountable body for TVU. The value of the balances transferred and the balances at the year end remain unaffected. The adjustment made is to transfer the balances in through the MIRS rather than as income in the CIES, in accordance with the requirements of the Code.				

	Dr: CIES Income	1,221		
2	Cr: CIES Expenditure		1,221	
Enterprise zone rates and other income duplicated in error in the CIES.				
	Dr: Investments		2,000	
3	Cr: Cash and cash equivalents			2,000
Relating to a misclassification between investments and cash.				

Disclosure amendments

Our audit has identified the following disclosure matters that management has agreed to amend:

- Cash Flow Statement; The Cash Flow Statement requires amendment to split the 'Purchase' and 'Sale' of short term and long term investments, as they were shown within one line as 'Purchase of short term and long term investments'. There is no bottom line impact on the Cash Flow Statement.
- Note 19 Financial Instruments; adjustments were required to the note to remove statutory items such as Tax and NI, as they not a Financial Instrument and to ensure consistency of reporting between items reported in the Balance Sheet and in Note 19.
- Disclosure notes are required to report Income and Expenditure by Nature, and under Note 1 disclosure of 'Revenue from external customers' in order to comply with the Code.
- A small number of more minor presentational and consistency matters.

Appendix B – Draft management representation letter

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

[Date]

Dear Sirs

Tees Valley Combined Authority - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the statement of accounts for Tees Valley Combined Authority (the Authority) for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Authority you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Financial Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Authority and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Authority's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Authority have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Authority has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Chief Financial Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Authority involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Authority's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances,

have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Authority will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Chief Financial Officer

Date.....

Appendix C – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEES VALLEY COMBINED AUTHORITY

Opinion on the Authority financial statements

We have audited the financial statements of Tees Valley Combined Authority for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Tees Valley Combined Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Tees Valley Combined Authority, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Tees Valley Combined Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General, we are satisfied that in all significant respects, Tees Valley Combined Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of Tees Valley Combined Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

Mark Kirkham
For and on behalf of Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

[Date]

Appendix D – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

AGENDA ITEM 8

**REPORT TO THE AUDIT AND
GOVERNANCE COMMITTEE**

5th SEPTEMBER 2017

**REPORT OF THE
DIRECTOR OF FINANCE**

STATEMENT OF ACCOUNTS 2016/17

SUMMARY

This report presents to Members the Authority's Statement of Accounts for 2016/17.

RECOMMENDATIONS

It is recommended that Members note the Statement of Accounts for 2016/17.

DETAIL

1. The accounts have been completed in accordance with the "Code of Practice on Local Authority Accounting in the United Kingdom 2016/17" which is prepared under International Financial Reporting Standards.
2. The Accounts and Audit Regulations (England) 2015 came in to effect on 1st April 2015. The regulations change the arrangements for the approval and publication of the Statement of Accounts and the Annual Governance Statement. Under the regulations the Authority must publish its audited Statement of Accounts and approved Annual Governance Statement by 30th September for 2016/17. Thereafter the publication date becomes 31st July.
3. The period in which the public have the right to examine the accounts, question the auditor and to make objections at audit has also changed. This is now a period of 30 working days which for 2016/17 must include the first ten working days of July. In 2018 this will become the first ten working days of June. The inspection period for this year commenced on the 28th June and ended on 9th August 2017. During this period there were no requests to inspect the accounts and there were no objections raised with the external auditor.
4. The external audit report on the statement of accounts and value for money, the "Annual Completion" report, highlighted a small number of agreed changes to the draft accounts presented to this committee in June. One misstatement was also reported however it was not adjusted as it was felt it did not impact on the content of the accounts.

5. The following key financial issues are included in the accounts:

- The comprehensive income and expenditure statement shows that the Authority generated an overall surplus of £50.3m in year. This is predominantly earmarked revenue and capital grants and contributions received but unapplied in year.
- The Authority's total reserves amounted to £85.4 million; this is predominantly earmarked general fund reserves and capital grants unapplied
- TVCA's investment in the Tees Valley in 2016/17 was £44.2m.
- Investments and Cash amount to £78.0 million. The majority of these funds are held with other local authority's, in bank deposits or invested in money market funds.
- The level of TVCA Core balances at the 31st March stands at £0.668 million.
- The Authority's Pension Scheme liability stands at £1.714m at the 31st March.

FINANCIAL IMPLICATIONS

TVCA Core Balances as at the 31st March 2017 are £668,000.

LEGAL IMPLICATIONS

Regulation 9(1) of the Accounts and Audit Regulations 2015 requires the Authority's Chief Finance Officer (Director of Finance) to sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the Authority. Regulation 9(2) requires the Statement of Accounts to be approved by members prior to publication. Regulation 10(1) requires the publication of the approved, audited Statement of Accounts by 30 September in 2017 and by 31st July thereafter.

RISK ASSESSMENT

None directly from this report.

CONSULTATION

None directly from this report.

Julie Gilhespie
Director of Finance

Contact Officer: Andy Bryson, Chief Accountant
Telephone Number 01642 528850
Email: andy.bryson@stockton.gov.uk

CONTENTS

	Page
Narrative Report	2
Statement of Accounts	
Core Single Entity Financial Statements:	
<i>Movement in Reserves Statement</i>	7
<i>Comprehensive Income and Expenditure Statement</i>	8
<i>Balance Sheet</i>	9
<i>Cash Flow Statement</i>	10
<i>Notes to the Core Financial Statements</i>	11
Statement of Responsibilities for the Statement of Accounts	34
Independent Auditor's Report	35
Appendices:	
<i>Appendix A: Glossary of Terms</i>	38

Tees Valley Combined Authority - Annual Financial Statements 2016/17

Narrative Report

Introduction

Welcome to the Tees Valley Combined Authority's unaudited Annual Statement of Accounts for 2016/17. The Statement of Accounts contains all the financial statements and disclosure notes required by statute. The statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The purpose of this narrative report is to provide a guide to the Authority's accounts as well as setting out the Authority's financial position.

The Tees Valley Combined Authority (TVCA) was established in April 2016 as a new legal body that brings together the five Authorities which serve Darlington, Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton, alongside private sector representation from the region's Local Enterprise Partnership. The TVCA is responsible for a number of transport functions and economic development and growth across the combined area.

Balances were transferred from Stockton-on-Tees Borough Authority to the Combined Authority relating to Tees Valley Unlimited. 2016/17 was a transition year, preparing the organisation to undertake new responsibilities. A new Managing Director was appointed in July 2016 and a capacity review undertaken to reflect the increasing levels of responsibilities and funding including the transition to mayoral governance arrangements.

Strategy and Priorities

The ambition is for Tees Valley to become a high value, low carbon, diverse and inclusive economy. These aspirations and goals, along with the Combined Authority's plan for delivering them, are laid down in the refreshed Strategic Economic Plan (SEP), published in December 2016. Our ambition incorporates economic, social and environmental priorities and will allow all partners to work towards a sustainable and socially responsible Tees Valley.

Underlying this ambition is a commitment to improving the lifetime opportunities for local people, tackling some of the difficult challenges of social exclusion, providing opportunities across all of the Tees Valley including rural areas and disadvantaged communities, thereby ensuring that all citizens are able to share in the benefits of economic growth. The SEP is focused around six thematic building blocks which reflect the main priorities and areas of activities over the next ten years to unlock transformational growth:-

- **Business Growth:** Further increase jobs and business density through targeted support to create and attract new companies and to grow businesses and sectors with high growth
- **Research, Development, Innovation & Energy:** Further enhance productivity in all core sectors through the commercialisation of knowledge;
- **Education, Employment & Skills:** Ensure a labour market which meets the needs of local business and supports the lifetime opportunities of all our residents;
- **Place:** Promote the Tees Valley as the preferred location in the UK for energy intensive indigenous firms and Foreign Direct Investment and create the conditions necessary to attract businesses and individuals with a focus on vibrant town centres;
- **Culture:** Change the external perceptions of Tees Valley through the arts, cultural and leisure offer, create places that attract and retain businesses and business leaders, and make the area an attractive place to live, work and visit; and
- **Transport & Infrastructure:** Facilitate local, regional, national and international road, rail and broadband connectivity through collaborative investment in physical infrastructure.

Tees Valley Combined Authority - Annual Financial Statements 2016/17

Narrative Report

A set of indicative activities and output targets is identified within the Strategic Economic Plan (SEP) for the six priorities as well as an assessment of overall impact.

Key Sections Included in the Statement of Accounts

Statement of Responsibilities - This sets out the respective responsibilities of the Combined Authority and the Chief Financial Officer for the Accounts.

Movement in Reserves Statement - This statement shows the movement during the year of the different reserves held by the Combined Authority.

Comprehensive Income and Expenditure Statement - This account summarises the revenue costs of providing all services and the income and resources received in financing the expenditure.

Balance Sheet - The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority.

Cash Flow Statement - This statement provides a summary of the flow of cash into and out of the Combined Authority for revenue and capital purposes.

Notes to the Financial Statements - These include the accounting policies and concepts applied, as well as the disclosure notes relating to the above statements.

Financial Position As At 31 March 2017

Core Running Costs

Our financial position at the end of the financial year on core running costs is shown in the following table:

Core Running Costs	Budget	Actual	Variance
	£000s	£000s	£000s
Salary Costs	1,685	1,728	43
Other Non Staffing Expenditure	787	822	35
Total Expenditure	2,472	2,550	78
Opening Balances Transferred to TVCA	(1,055)	(1,055)	-
LA Contributions	(2,067)	(2,067)	-
Bank Interest	-	(96)	(96)
Total Income	(3,122)	(3,218)	(96)
General Fund Balance @ 31/03/17	(650)	(668)	(18)

The variance relates to external audit fees and transitional arrangements which have been funded from the generation of investment interest. The General Fund balance at year end was £0.668m. This includes £18k which was agreed to fund outstanding Due Diligence costs leaving an uncommitted balance of £0.650m, in line with that planned.

Tees Valley Combined Authority - Annual Financial Statements 2016/17

Narrative Report

Resource Position

Our investment in Tees Valley in 2016-17 was £44.2 million spent as detailed in the following table.

	Budget £000	Actual £000	Variance £000
Total Devolved Spend	24,437	23,399	(1,038)
Other Spend	20,945	20,827	(118)
TOTAL EXPENDITURE	45,382	44,226	(1,156)
Funded by:-			
Devolved Funding	(24,437)	(23,399)	1,038
Specific Grants	(20,945)	(20,827)	118
TOTAL FUNDING	(45,382)	(44,226)	1,156

There is £1.1m of net slippage compared to the expected position in 2016/17 which is as a result of spending being reprofiled into future years. In particular match funding for the ESF Youth Employment Initiatives, Apprenticeship Grant for Employers and expanding superfast broadband programmes of £3.5m has been offset by accelerated spending on the Local Growth Fund of £2.5m. Overall, spending is on track as part of the multi-year programme. The position will be further considered as part of the Investment Plan Review due to be considered by Cabinet at its September meeting. Please note that these figures compared to the CIES exclude income and expenditure related to SSI and Core running costs.

Development Fund

The Development Fund was created to provide upfront investment in feasibility work to ensure that when proposals come forward under the Strategic Economic Plan priorities they are sufficiently developed for decision making and to allocate funding. The balance on the Development Fund at 31 March 2017 is £3.315m, of which £1.496m is uncommitted.

Task Force Funding

In October 2015, we suffered the devastating loss of the SSI Redcar Steelworks, with the direct loss of 3,000 jobs, and many more affected in the wider supply chain. The SSI Task Force was established to offer help and support to those affected by the closure. The Task Force worked with government to put in place local packages of investment of which £13.305m was expended in 2016/17 to support both individuals and business affected by the closure and also to provide longer term wider economic benefits to the area.

Of the Task Force funding received to date there remains a balance of £29.204m at 31 March 2017 to provide continued economic support for those impacted by the closure.

Looking Ahead Including Future Funding Changes & Risks

Following detailed negotiations between the Tees Valley Local Authorities and Government, a devolution deal worth £450 million over 30 years was signed in October 2015. Equivalent to an additional £15 million per year, the deal also provides for the transfer of significant powers for employment and skills, transport and investment from Central Government to the Tees Valley. A new fund (the Single Pot) has been created to deliver a programme of investment in the region over the 30 year period. As part of the devolution deal a new Tees Valley Mayor has been elected in May 2017 to chair the Combined Authority and drive forward our ambitious plans.

Tees Valley Combined Authority - Annual Financial Statements 2016/17

Narrative Report

The Tees Valley Business Compass Service expanded on the existing Growth Hub arrangement during the latter part of 2016/17 and is being delivered by a third party under contract to the Combined Authority. The programme aims to support 1,025 SME's growth opportunities. The total amount of European funding available until the end of 2019 is £12.97m. This will also lever in co-investment from grant recipients of £19.2m.

The South Tees area is a complex site which needs careful oversight. It was therefore agreed with government in the devolution deal that the South Tees area would benefit from the first Mayoral Development Corporation outside London, to be established by the Combined Authority under new legal powers. The SSI-owned sites themselves create particular challenges. The government has made a formal commitment that no responsibilities will be transferred locally without appropriate and specific funding and has initially provided resources to ensure the safe management of the site. The Combined Authority will continue to work closely with the government to ensure liabilities and risks are managed effectively.

The Tees Valley Combined Authority's first Investment Plan was published and agreed in March 2017. Investment will adhere to the single pot assurance framework agreed with government to ensure we are open and accountable for our decisions. It will be reviewed again in Autumn 2017. This revision will take into account progress over the next 6 months, including opportunities for further devolution and the development of our Sector Action Plans. The review will also be the first opportunity to reflect the priorities and manifesto of the incoming Mayor.

The Chancellor announced in the 2016 Autumn Statement that Mayoral Combined Authorities would be given the power to borrow to fund investment. Borrowing is expected to be subject to the "Prudential Code" which applies to all local authority borrowing. The powers which are expected to be in place during the latter part of next financial year and will be reflected in an updated Treasury Management Strategy to be agreed by Cabinet. Borrowing will be subject to a sound business case and provide opportunities to boost and bring forward investment enhancing the impact on the economic growth of the Tees Valley. The Combined Authority will only be able to borrow where we are able to generate a return from investment, or can assign future funding to fully fund the borrowing costs.

Brexit will have profound implications for the UK, and for the Tees Valley specifically. As one of a small number of areas which qualify for an enhanced level of access to European Funding, the resources available for investment in our economy are at particular risk. But there are also opportunities to develop new methods of funding, which could mean that Brexit actually improves the impact of regional economic development funding for areas such as ours. The outcome depends on the Brexit negotiations, and the choices that the government makes about how local economic development should be supported in this new environment.

Non Financial Performance

Key performance measures are as follows:-

- Apprenticeship Grant for Employers (AGE) - following the devolution of AGE Grant funding effective from August 2016 from central Government the Combined Authority has supported training for 765 apprentices.

- Careers and Enterprise Company Activity - the Enterprise Adviser Network programme has signed up 46 schools/ colleges already exceeding the target of 44 by August 2017, engaging with 7,242 Tees Valley young people aged 12-18 years old.

- SSI Schemes – individuals have been supported in addition to those businesses covered under Business Compass below:-

- Jobs & Skills - 363 jobs created

- Retraining and removing barriers to employment - supported 2,061 former SSI and affected supply chain employees.

- Enabled 51 former SSI apprentices to complete their apprenticeships with other employers.

- Created 269 new business start ups by affected former employees.

Tees Valley Combined Authority - Annual Financial Statements 2016/17

Narrative Report

- Business Compass – During the year the Growth Hub worked with over 750 companies to secure over £8.8m of new investment (including £6.1m of private sector match funding) which created over 300 new jobs and safeguarded 87 jobs. The increased European Funding has facilitated increased delivery capacity moving from 3 FTE advisor posts to 5 FTE in year (further increasing to 10 during 2017/18)

Borrowing and Lending Arrangements

During 2016/17, the Combined Authority had no powers to borrow for investment and therefore has no loans.

The majority of the Authority's surplus cash is invested in short-term bank deposits, and money market funds. At the end of the financial year the Authority held investments totalling £77m. The average rate of return on investments was 0.23% and this has generated £180k in interest in the year.

The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

In terms of investment strategy, given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding asset classes during 2017/18.

Retirement Benefits (IAS 19)

The Authority is required to comply with the accounting principles as required by International Accounting Standard 19 (IAS19). This requires the cost of retirement benefits to be recognised in the Financial Statements when employees earn them, rather than when the benefits are actually paid as pensions. Disclosure requirements include figures for the Net Pension Asset/Liability and the Pension Reserve in the Balance Sheet. There are also entries in the Comprehensive Income and Expenditure Statement and Movement In Reserves Statement to reflect movements in the Net Pension Asset/Liability from one year to the next. Entries are also required to reconcile back to actual pension contributions payable for Authority tax purposes.

AON Hewitt, an independent firm of actuaries, has calculated the Authority's net liability position as £1.714m on the Local Government Pension Scheme as at 31st March 2017. Employer's contributions to the pension fund during 2016/17 were charged at 19.8% of total pensionable employee pay in line with actuarial advice. Further information on retirement benefits is available in Note 20 of the Notes to the Core Financial Statements.

Further Information

Further information about our finances is available from the Combined Authority's website, <https://teesvalley-ca.gov.uk> or from the Chief Financial Officer, Tees Valley Combined Authority, Cavendish House, Teesdale Business Park, Stockton-on-Tees, Tees Valley, TS17 6QY.

Tees Valley Combined Authority - Annual Financial Statements 2016/17

Movement in Reserves Statement for the year ended 31 March 2017

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
<u>Movement in reserves during 2016/17</u>						
Transfer from Stockton on Tees Borough Council	35,121	-	-	35,121	-	35,121
Revised Balance at 1 April 2016	35,121	-	-	35,121	-	35,121
Total Comprehensive Income and Expenditure	52,028	-	-	52,028	(1,723)	50,305
Adjustments between accounting basis & funding basis under regulations (Note 5)	(40,403)	-	40,570	167	(167)	-
Increase/Decrease in Year	11,625	-	40,570	52,195	(1,890)	50,305
Balance at 31 March 2017 carried forward	46,746	-	40,570	87,316	(1,890)	85,426
General Fund analysed over:						
Amounts earmarked (Note 6)	46,078					
Amounts uncommitted	668					
Total General Fund Balance at 31 March 2017	46,746					

**Comprehensive Income and Expenditure Statement
for the year ended 31 March 2017**

The Comprehensive Income and Expenditure Statement (CIES) shows the economic cost in the year of providing services in accordance with generally accepted accounting practices.

	2016/17		
	£000s	£000s	£000s
	Expenditure	Income	Net
Business Growth	6,108	(10,112)	(4,004)
Research Development Innovation & Energy	1,631	(4,378)	(2,747)
Education Employment & Skills	4,558	(6,827)	(2,269)
Culture	25	-	25
Transport	20,602	(20,863)	(261)
Enabling Infrastructure	58	(6,679)	(6,621)
Project Development	1,258	(1,258)	-
Schemes Not in the Investment Plan	26,074	(16,258)	9,816
Core Running Costs	2,227	(7,028)	(4,801)
Cost Of Services	62,541	(73,403)	(10,862)
<i>Financing and Investment Income and Expenditure:</i>			
Net interest on the net defined benefit liability/asset	160	(130)	30
Interest receivable and similar income		(253)	(253)
<i>Taxation and Non-Specific Grant Income:</i>			
Non-ringfenced government grants	-	(373)	(373)
Capital grants and contributions	-	(40,570)	(40,570)
(Surplus) or Deficit on Provision of Services			(52,028)
Re-measurements of the defined benefit liability			1,723
Other (gains) and losses			-
Other Comprehensive Income and Expenditure			1,723
Total Comprehensive Income and Expenditure			(50,305)

Tees Valley Combined Authority - Annual Financial Statements 2016/17

Balance Sheet as at 31 March 2017

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

	Note	31 March 2017 £000s
Non-current assets		
Long Term Debtors		5,013
Total non-current assets		<u>5,013</u>
Current assets		
Short term investments		50,056
Debtors	10	5,966
Cash and Cash Equivalents	11	<u>28,002</u>
Total current assets		<u>84,024</u>
Current liabilities		
Short Term Creditors	12	<u>(1,897)</u>
Total current liabilities		(1,897)
Long term liabilities		
Long Term Creditors		-
Other Long Term Liabilities	13 & 20	<u>(1,714)</u>
Total long term liabilities		(1,714)
Net Assets:		<u>85,426</u>
Reserves		
Usable reserves:		
General Fund Balance	1	668
Earmarked General Fund Reserves	6	46,078
Capital Grants Unapplied		<u>40,570</u>
		87,316
Unusable Reserves:		
Pensions Reserve	13 & 20	(1,714)
Accumulated Absences Account	5	<u>(176)</u>
		(1,890)
Total Reserves:		<u>85,426</u>

Tees Valley Combined Authority - Annual Financial Statements 2016/17

Cash Flow Statement For The Year Ended 31 March 2017

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way contributions and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

	Note	2016/17 £000s
Net (surplus) or deficit on the provision of services		(52,028)
Adjustments to net surplus or deficit on the provision of services for non-cash movements:		
Pension Fund adjustments		9
Transfer of reserves from Stockton-on-Tees Borough Council		(35,121)
Increase/(Decrease) in Revenue Debtors	10	5,966
(Increase)/Decrease in Revenue Creditors	12	(1,897)
Increase/(Decrease) in Long Term Debtors		5,013
		(26,030)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:		
Capital Grants credited to surplus or deficit on the provision of services		40,570
		40,570
Net cashflow from operating activities		(37,488)
Investing activities		
Purchase of short term and long term investments		50,056
Other receipts from investing activities		(40,570)
Net cashflow from investing activities		9,486
Net (increase) or decrease in cash and cash equivalents		(28,002)
Cash and cash equivalents at the beginning of the reporting period		-
Cash and cash equivalents at the end of the reporting period	11	(28,002)
The cashflow for operating activities includes the following items:		
Interest received		(191)
Interest paid		-

Note 1: Expenditure & Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Combined Authority in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	2016/17		
	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s
Business Growth	43	(4,047)	(4,004)
Research Development Innovation & Energy	45	(2,792)	(2,747)
Education Employment & Skills	21	(2,290)	(2,269)
Culture	24	1	25
Transport	30	(291)	(261)
Enabling Infrastructure	-	(6,621)	(6,621)
Project Development	-	-	-
Schemes Not in the Investment Plan	71	9,745	9,816
Core Running Costs	(277)	(4,524)	(4,801)
Net Cost Of Services	(43)	(10,819)	(10,862)
Other Income and Expenditure	(626)	(40,540)	(41,166)
Surplus or Deficit	(669)	(51,359)	(52,028)
Opening General Fund Balance	-		
Less/Plus Surplus or (Deficit)	669		
Closing General Fund Balance at 31 March 2017	669		

Note 1: Expenditure & Funding Analysis

Notes to the Expenditure and Funding Analysis:

Adjustments between Funding and Accounting Basis 2016/17				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Business Growth	-	(2)	(4,045)	(4,047)
Research Development Innovation & Energy	-	-	(2,792)	(2,792)
Education Employment & Skills	-	(1)	(2,289)	(2,290)
Culture	-	(1)	2	1
Transport	-	-	(291)	(291)
Enabling Infrastructure	-	-	(6,621)	(6,621)
Project Development	-	-	-	-
SSI Tsk Force Funding	-	(2)	9,747	9,745
Core Running Costs	-	(33)	(4,491)	(4,524)
Net Cost Of Services	-	(39)	(10,780)	(10,819)
Other Income and Expenditure from the Expenditure and Funding Analysis	(40,570)	30	-	(40,540)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(40,570)	(9)	(10,780)	(51,359)

Adjustments for capital purposes: this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments: this is the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

Other Differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

Note 1: Expenditure & Funding Analysis

Expenditure and Income Analysed By Nature

The Authority's expenditure and income is analysed as follows:

	<u>2016/17</u> <u>£000s</u>
Expenditure	
Employee benefits expenses	2,476
Other services expenses	60,064
Interest payments	161
Total Expenditure	62,701
Income	
Fees, charges and other service income	(691)
Interest and investment income	(383)
Government grants and contributions	(113,655)
Total Income	(114,729)
(Surplus) or Deficit on the Provision of Services	(52,028)

Segmental Income

Income received on a segmental basis is analysed below:

	<u>2016/17</u> <u>Income</u> <u>from</u> <u>Services</u> <u>£000s</u>
Services	
Schemes Not in the Investment Plan	(416)
Core Running Costs	(275)
Total income analysed on a segmental basis	(691)

Note 2: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

The 2016/17 Code of Practice includes amendments to the following accounting standards that have not been adopted within this Statement of Accounts:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from contracts with customers

The Authority does not anticipate that the above amendments will have a material impact on the information provided in the financial statements in that there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services.

Note 3: Critical Judgements in Applying Accounting Policies

In applying its accounting policies the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

As far as Value Added Tax is concerned the Government's usual intention is to ensure that the Combined Authority like other local authorities should not bear any additional costs from VAT and that HMRC would not incur costs or make savings as a result of the policy. The policy would have no impact for the Exchequer. However, powers under Section 33 of the VAT Act 1994 were not put in place by the Department for Communities and Local Government or HM Treasury to enable the Combined Authority to fall under these arrangements until 7 November 2016. As a consequence £610k of unrecoverable VAT has been charged against service accounts for the period 1 April to 6 November 2016. Discussions are on-going with DCLG and Treasury regarding this position

Note 4: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Pension liabilities: estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. Sensitivities are included in Note 20.

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

2016/17	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account (see note 7)	-			-
Adjustments involving the Capital Grants Unapplied Account	(40,570)		40,570	-
Adjustments involving the Pensions Reserve	(9)			(9)
Adjustments involving the Accumulated Absences Adjustment Account	176			176
Total Adjustments	(40,403)	-	40,570	167

Note 6: Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17.

Earmarked Reserves	Balance at 31 March 2016 £000s	Transfers Out 2016/17 £000s	Transfers In 2016/17 £000s	Balance at 31 March 2017 £000s
Revenue Reserves				
Development Pot	-	141	(2,300)	(2,159)
Investment Fund	-	6,063	(27,650)	(21,587)
SSI	-	10,306	(32,638)	(22,332)
Total Revenue Reserves	-	16,510	(62,588)	(46,078)

Note 7: Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

	2016/17	
	£000s	£000s
Balance at 1 April 2016		
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Revenue expenditure funded from capital under statute	28,339	
Capital financing applied in the year:		28,339
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(28,339)	
Balance at 31 March 2017		-

Note 8: Members' Allowances

Details of the amounts paid to each elected member of the Authority are published annually. Elected members from the constituent local authorities sit on various TVCA boards and no payments were made to these members during 2016/17.

Note 9: Employee remuneration

The number of employees whose taxable remuneration, including benefits, redundancy and other severance payments, exceeded £50,000 is shown below, in bands of £5,000:

Remuneration Summary Salary Range	Number of Employees
	2016/17
	Authority
£50,001 - £55,000	-
£55,001 - £60,000	-
£60,001 - £65,000	-
£65,001 - £70,000	-
£70,001 - £75,000	-
£75,001 - £80,000	-
£80,001 - £85,000	-
£85,001 - £90,000	-
£90,001 - £95,000	-
£95,001 - £100,000	-

Remuneration of the Managing Director and his senior staff has been excluded above. Details are shown in the following table.

Remuneration of Senior Employees							
Post holder information	Salary (Including fees & Allowances) £	Expense Allowances £	Benefits in kind £	Total Remuneration excluding pension contributions 2016/17 £	Pension contributions £	Total Remuneration including pension contributions 2016/17 £	Total Remuneration including pension contributions 2015/16 £
<i>Managing Director</i>	100,161	559	-	100,720	8,694	109,414	-
<i>Strategy Director</i>	91,932	651	-	92,583	18,202	110,785	-
<i>Investment Director</i>	21,619	158	-	21,777	4,280	26,057	-
<i>Business Director</i>	91,932	964	-	92,896	18,202	111,098	-
<i>Head of Skills Education & Employment</i>	17,078	-	-	17,078	3,381	20,459	-
<i>Head of Culture & Tourism</i>	16,993	-	-	16,993	3,620	20,613	-
<i>Head of Transport</i>	5,827	-	-	5,827	1,154	6,981	-
<i>Head of Homes & Communities</i>	31,142	-	-	31,142	6,166	37,308	-
	376,684	2,332	-	379,016	63,699	442,715	-

Only three of the senior employee posts have been in employment of the organisation for the full financial year. These being the Managing Director, Strategy Director and Business Director. All other employees commenced employment at various stages of the year.

The Chief Finance Officer and Monitoring Officer are both employees of Stockton On Tees Borough Council and do not receive any direct remuneration from TVCA for this role.

Note 10: Debtors

	31 March 2017
	£000s
Central Government	1,372
Local Government	4,500
Other entities and individuals	94
	<u>5,966</u>

Note 11: Cash and Cash Equivalents

	31 March 2017
	£000s
Bank and Imprests	2,996
Cash Equivalents	25,006
	<u>28,002</u>

Note 12: Short Term Creditors

	31 March 2017
	£000s
Central Government	(59)
Local Government	(1,474)
Other entities and individuals	(364)
	<u>(1,897)</u>

Note 13: Other Long Term Liabilities

	31 March 2017
	£000s
Net pensions liability	(1,714)
	<u>(1,714)</u>

Note 14: Related Party Transactions

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party’s ability to bargain freely with the Authority.

Central Government

Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties. Grants received from government departments are set out in the subjective analysis in Note 18.

Members

Members of the Authority have direct control over the Authority’s financial and operating policies. The total of members’ allowances paid in 2016/17 is shown in Note 8. During 2016/17, there were no related party transactions between Authority members and TVCA.

Entities Controlled or Significantly Influenced by the Authority

No elected member or senior officer of the authority sit on any board or management committee of any entities which are significantly controlled or influenced by the authority.

TVCA Constituent Authorities

The Leaders and Elected Mayor of the five TVCA constituent Authorities serve as members of the TVCA Leadership Board. Details of income and expenditure with the five Authorities are set out in the table below.

2016/17	Income Received £000s	Expenditure £000s
Stockton On Tees Borough Council	4,832	4,844
Middlesbrough Borough Council	4,590	6,994
Redcar & Cleveland Borough Council	4,895	3,235
Hartlepool Borough Council	2,582	2,941
Darlington Borough Council	3,431	3,808
Total	20,330	21,822

Note 15: External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Authority's external auditors:

	2016/17 £000s
Fees payable to Mazars LLP with regard to external audit services	30
Fees payable to Mazars LLP for the certification of grant claims	-
Fees payable in respect of other services provided by Mazars LLP	-
	<hr/> 30 <hr/>

Note 16: Leases

Operating leases: Authority as lessee

From the 1st January 2017 the Authority took on the lease of the third floor of Cavendish House. The new lease is for a term of 10 years. The minimum lease payments due in future years are:

Future minimum lease payments due	2016/17 £000s
Not later than one year	119
Later than one year & not later than five years	608
Later than five years	722
	<hr/> 1,449 <hr/>

Note 17: Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the bottom part of this note.

	31 March 2017 £000s
Opening Capital Financing Requirement	-
Capital investment	
Revenue expenditure funded from capital under statute	28,339
Sources of Finance	
Government grants and other contributions	(28,339)
Closing Capital Financing Requirement	<hr/> - <hr/>

Tees Valley Combined Authority - Annual Financial Statements 2016/17

Note 18: Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17.

	2016/17 £000s
Credited to Taxation and Non Specific Grant Income	
Local Growth Fund	28,479
SSI	6,872
Growing Places	4,063
Development Pot	1,156
Total	40,570
Credited to Services	
Local Growth Fund	9,308
SSI	7,368
LEP Core	500
ERDF Business Compass	339
AGE	1,158
DECC - City Deal / Carbon	300
Devolution	15,000
Sustainable Transport	990
Local Transport Plan	14,674
Contributions from other LA's	2,088
Other	3,696
Total	55,421

Note 19: Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term	Current
	31 March 2017	31 March 2017
	£000s	£000s
Loans and receivables	5,013	78,058
Financial assets carried at contract amounts	-	5,812
Total financial assets	5,013	83,870
Financial liabilities carried at contract amount		(1,721)
Total financial liabilities		(1,721)

Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Mark to Model Valuation for Financial Instruments

As at 31st March 2017 the Authority held £88.9m financial assets and had no financial liabilities. All the financial assets are classed as Loans and Receivables and held with Notice Accounts. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Arlingclose our Treasury Management Advisors. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector.

Loans and receivables

	31 March 2017	
	Carrying Amount	Fair Value
	£000s	£000s
Money Market Loans < 1 year	50,056	50,056
Other Loans >1 year	5,013	5,013
Cash on Deposit	28,002	28,002
Customers	5,812	5,812
Total loans and receivables	88,883	88,883

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. The exceptions to this treatment are short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Nature and Extent of Risks Arising from Financial Instruments

Key risks

The Authority's activities expose it to a variety of financial risks; the key risks are:

- **credit risk** – the possibility that other parties might fail to pay amounts due to the Authority
- **liquidity risk** – the possibility that the Authority might not have funds available to meet its commitments to make payments
- **re-financing risk** – the possibility that the Authority might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms

Note 19: Financial Instruments

- **market risk** – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements

Overall procedures for managing risks

The Authority's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Authority to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Authority to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - The Authority's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures to the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved at or before the the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Authority's financial instrument exposure. Actual performance is also reported after each year and regular updates are provided to the Audit Committee.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services.

The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Investment Strategy can be found on the Authority's website.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £21,000 cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise.

The following analysis summarises the Authority's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2017	Historical experience of default	Adjustment for market conditions at 31 March 2017	Estimated maximum exposure to default at 31 March 2017
	£000s	%	%	£000s
AA rated counterparties	-	0.03%	0.03%	-
A rated counterparties	35,000	0.06%	0.06%	21
B rated counterparties	0	0.18%	0.18%	-
Local Authorities	15,000	0.00%	0.00%	-
Debtors	5,812	0.00%	0.00%	-
				21

No breaches of the Authority's counterparty criteria occurred during the reporting period and the Authority does not expect any losses from non performance by any of its counterparties in relation to deposits.

Note 19: Financial Instruments

Liquidity Risk

The Authority manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Authority is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

As at 31 March 2017, all of the Authority's deposits were due to mature within 364 days.

Refinancing and Maturity risk

The Authority maintains a significant investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Authority relates to managing the exposure to replacing financial instruments as they mature. The approved treasury indicator limits placed on investments are the key parameters used to address this risk. The Authority approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Authority's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

Market Risk

Interest Rate Risk: *The Authority is exposed to interest rate movements on its investments. Movements in interest rates have a complex impact on the Authority, depending upon how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:*

- investments at variable rates – the interest income credited to the (Surplus) or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	2016/17 £000s
Increase in interest receivable on variable rate investments	301
Impact on (Surplus) or Deficit on the Provision of Services	301

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk: *The Authority, excluding the pension fund, does not invest in equity shares or marketable bonds.*

Foreign Exchange Risk: *The Authority has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.*

Note 20: Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in The Local Government Pension Scheme, administered locally by Middlesbrough Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Authority resources is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Note 20: Defined Benefit Pension Schemes

	Local Government Pension Scheme
	2016/17
	£000s
Comprehensive Income and Expenditure Statement	
Cost of Services:	
• Current service cost	366
• Past service cost	-
Financing and Investment Income and Expenditure	
Net interest cost	30
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	396
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
• Return on plan assets (excluding the amount included in the net interest expense)	(787)
• Actuarial gains and losses arising on changes in financial assumptions	1,434
• Actuarial gains and losses due to liability experience	-
• Actuarial gains and losses due to acquisitions	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	647
Movement in Reserves Statement	
Reversal of net charges made to the (Surplus) or Deficit for the	
• Provision of Services for post employment benefits in accordance with the Code	(396)
Actual amount charged against the General Fund Balance for pensions in the year:	
• Employers' contributions payable to scheme	405

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme
	2016/17
	£000s
Present value of defined benefit obligation	(6,715)
Fair value of assets	5,001
Net liability recognised in the Balance Sheet	(1,714)

Note 20: Defined Benefit Pension Schemes

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme
	2016/17 £000s
Opening fair value of scheme assets	3,578
Interest income	130
Remeasurement gains and (losses)	787
Contributions from the employer	405
Contributions from employees into the scheme	113
Net increase from acquisitions	-
Benefits paid	(12)
Closing balance at 31 March 2017	5,001

Reconciliation Of Present Value Of The Scheme Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme
	2016/17 £000s
Opening balance at 1 April	(4,654)
Current service cost	(366)
Interest cost	(160)
Contributions by scheme participants	(113)
Actuarial gains and losses - financial assumptions	(1,434)
Actuarial gains and losses - liability experience	-
Benefits paid	12
Net increase from acquisitions	-
Past service cost	0
Closing balance at 31 March 2017	(6,715)

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets	
	2016/17	
	£000s	%
Equity investments (Quoted)	4,001	80.0%
Property (Quoted)	345	6.9%
Government Bonds	10	0.2%
Corporate Bonds	10	0.2%
Cash	560	11.2%
Other Investments	75	1.5%
	5,001	100%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by AON Hewitt, an independent firm of actuaries; estimates for the Teesside Pension Fund being based on the latest full valuation of the scheme as at 31 March 2017.

Note 20: Defined Benefit Pension Schemes

The principal assumptions used by the actuary have been:

	2016/17
Mortality assumptions:	
<i>Longevity at 65 for current pensioners:</i>	
Men	22.8
Women	24.9
<i>Longevity at 45 for future pensioners:</i>	
Men	25.0
Women	27.2
Other assumptions:	
<i>Rate of inflation (RPI)</i>	3.1%
<i>Rate of inflation (CPI)</i>	2.0%
<i>Rate of increase in salaries</i>	3.0%
<i>Rate of increase in pensions</i>	2.0%
<i>Rate of Pension accounts revaluation rate</i>	2.0%
<i>Rate for discounting scheme liabilities</i>	2.6%
<i>Take-up of option to convert annual pension into retirement lump sum</i>	80.0%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme

	Increase	Base Figure	Decrease
	£000s	£000s	£000s
Longevity (increase or decrease in 1 year)	6,517	6,715	6,915
Rate of increase in salaries (increase or decrease by 0.1%)	6,784	6,715	6,647
Rate of increase in pensions payment (increase or decrease by 0.1%)	6,820	6,715	6,612
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	6,545	6,715	6,890

Impact on the Authority’s Cash Flows

The objectives of the scheme are to keep employers’ contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme’s actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be carried out as at 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Authority anticipates to pay £0.257m contributions to the scheme in 2017/2018.

The weighted average duration of the defined benefit obligation for scheme members is 25.7 years.

Note 21: Termination Benefits

The Authority terminated the contract of one employee in 2016/17, incurring liabilities of £3k. The amount has been payable to an officer from the Authority reflecting the end of specific grant funding.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total cost of exit packages in each band
	2016/17	2016/17	2016/17	2016/17 £000s
£1 to £20,000	1	-	1	3
Total	1	-	1	3

Note 22: Provisions

The Authority has not been required to establish any provision's in year.

Note 23: Contingent Liabilities

The Authority has no contingent liabilities.

Note 24: Post Balance Sheet Events

The Authority has no post balance sheet events to report.

Note 25: Statement of Accounting Policies

General Principles

The Statement of Accounts summarise the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the financial statements is principally historical cost, modified by the revaluation of certain categories of non current assets and financial instruments.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Income from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Income from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for respectively as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to (Surplus) or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Note 25: Statement of Accounting Policies

Post Employment Benefits

Employees of the Authority are members of one pension scheme:

- The Local Government Pensions Scheme, administered by Middlesbrough Authority.

The schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority and its predecessor.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Teesside Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on the Aon Hewitt GBP Central AA Curve.
- The assets of the Teesside Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
 - quoted securities* – current bid price
 - unquoted securities* – professional estimate
 - unitised securities* – current bid price
 - property* – market value.

The change in the net pensions liability is analysed into the following components:

Service cost comprising:

- *current service cost*: the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- *past service cost*: the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- net interest on the net defined benefit liability: i.e. net interest expense for the Authority - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period - taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- *the return on plan assets* - excluding amounts included in the net interest on the net defined benefit liability - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- *actuarial gains and losses*: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Teesside Pension Fund:

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. Two types of events can be identified:

Note 25: Statement of Accounting Policies

- those that provide evidence of conditions that existed at the end of the reporting period – the Financial Statements are adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

Financial Assets

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset in the Balance Sheet. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non Specific Grant Income (non ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

Note 25: Statement of Accounting Policies

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Contingent Liabilities & Contingent Assets

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Authority expenditure.

Certain reserves are kept to manage the accounting processes for non current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged.

VAT

VAT on income and expenditure is included only to the extent that it is not recoverable from HM Revenue and Customs.

Note 25: Statement of Accounting Policies

Fair Value Measurement

The Authority measures some of its non-financial assets, and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 - quoted prices
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - unobservable inputs for the asset or liability.

Responsibilities for the Annual Financial Statements

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Financial Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Annual Financial Statements by the date specified by the Secretary of State.

The Chief Financial Officers Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's Annual Financial Statements in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain (the Code of Practice).

In preparing the Annual Financial Statements, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code of Practice.

The Chief Financial Officer has also:

- kept accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of the accounts by the Chief Financial Officer

In accordance with the requirements of the Accounts and Audit Regulations 2015, I certify that by signing this statement the Annual Financial Statements give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2017.

G Cummings CPFA
Chief Financial Officer

Date: 30 June 2017

These financial statements replace the unaudited financial statements certified by the previous Chief Finance Officer on the 30th June 2017

J Gilhespie
Director of Finance

Date: 29 September 2017

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
STOCKTON-ON-TEES BOROUGH COUNCIL**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
STOCKTON-ON-TEES BOROUGH COUNCIL**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
STOCKTON-ON-TEES BOROUGH COUNCIL**

Glossary of Terms

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Amortised cost

The amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount. International Accounting Standard (IAS) 39 requires the amortised cost to be calculated using the effective interest method.

Capital Charge

A charge to service revenue accounts to reflect the cost of non current assets used in the provision of a service.

Capital Expenditure

Expenditure on the acquisition of a non current asset or expenditure designed to extend its useful life.

Consistency

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingency

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non occurrence of one or more uncertain future events.

Depreciation

The measure of the wearing out, consumption or other reduction in the useful economic life of a non current asset, whether arising from use, effluxion of time or obsolescence through technological or other changes.

Effective interest method

This is a method of calculating the amortised cost of a financial asset or financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate in a financial instrument is the rate that exactly discounts the cash flows associated with the instrument to the net carrying amount at initial recognition.

Exceptional Items

Material items which derive from events or transactions that fall within the ordinary activities of the Authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Extraordinary Items

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Authority and which are not expected to recur. They do not include exceptional items, nor do they include prior period items, merely because they relate to a prior period.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

Glossary of Terms

Finance Lease

A lease that transfers substantially all the risks and rewards of ownership of a non current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Going Concern

The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

Inventories

Comprise the value of items held in the following categories:

- a) goods or other assets purchased for resale;
- b) consumable stores;
- c) raw materials and components purchased for incorporation into products for sale;
- d) products and services in intermediate stages of completion;
- e) long term contract balances; and
- f) finished goods.

Investments

A long term investment is an investment that is being held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments which do not meet the above criteria are classified as current assets.

Long Term Contracts

A contract entered into for the design, manufacture or construction of a substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts, if they are sufficiently material to the activity of the period.

Net Book Value

The amount at which non current assets are included in the balance sheet i.e. the historical cost or current value, less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use i.e. the costs of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of a non operational asset), less any expenses incurred in realising the asset.

Glossary of Terms

Non Current Assets

Tangible assets that yield benefits to the Authority and the services it provides for a period of more than one year.

Non Operational Assets

Non current assets held by a Authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Lease

A lease other than a finance lease.

Operational Assets

Non current assets held and occupied, used or consumed by the Authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Prior Year Adjustments

Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates in prior years.

Prudence

The concept that revenue is not anticipated, but is recognised only when realised, in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Usable Reserves

Amounts set aside to meet future costs, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Unusable Reserves

Reserves that not available to spend; this category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

AGENDA ITEM 9

**REPORT TO THE AUDIT AND
GOVERNANCE COMMITTEE**

5th SEPTEMBER 2017

**REPORT OF THE MANAGING DIRECTOR
AND CHIEF FINANCIAL OFFICER**

DRAFT ANNUAL GOVERNANCE STATEMENT 2016/17

SUMMARY

This report presents to Members the Authority's draft Annual Governance Statement for 2016/17.

RECOMMENDATIONS

It is recommended that Members note the draft Annual Governance Statement for 2016/17 and provide comments for consideration by Cabinet.

DETAIL

1. The Accounts and Audit Regulations 2015 require all authorities in England to conduct a review at least once a year of the effectiveness of its governance framework and produce an Annual Governance Statement to accompany its Statement of Accounts. The deadline for completion of the Statement of Accounts for 2016/17 is 30 June 2017 at which point they are subject to the external audit process.
2. The audited Statement of Accounts and the Annual Governance Statement will be presented for approval to Cabinet on the 29 September, 2017.
3. A further requirement of the regulations state that the Statement should be signed by the Managing Director and the Mayor, following approval by Cabinet. A key objective of this signing off process is to secure corporate ownership of the statement's contents.
4. The Annual Governance Statement includes an acknowledgement of responsibility for ensuring that proper arrangements are in place around the governance of its affairs and an indication of the level of assurance that the system provides. The statement also includes a description of the key elements forming the governance framework, a description of the process applied in reviewing the effectiveness of this

framework, including the system of internal control, and an outline of the actions taken or, proposed to be taken, to deal with significant governance issues.

5. The Combined Authority's draft Annual Governance Statement for 2016/17 is attached at **Appendix 1**. At this time the Authority has not identified any significant issues that are not being addressed within the Statement.

FINANCIAL IMPLICATIONS

6. None directly from this report

LEGAL IMPLICATIONS

7. The Accounts and Audit Regulations 2015 require all English authorities to prepare an Annual Governance Statement and for it to accompany the Statement of Accounts.

RISK ASSESSMENT

8. None directly from this report

CONSULTATION

9. None

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Email Address: garry.cummings@stockton.gov.uk

Draft Annual Governance Statement 2016/17

Introduction

1. The Tees Valley Combined Authority (TVCA) was established in April 2016 as a new legal body that brings together the five Authorities which serve Darlington, Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton, alongside private sector representation from the region's Local Enterprise Partnership. The TVCA is responsible for a number of transport functions and economic development and growth across the combined area
2. 2016/17 was a transition year, preparing the organisation to undertake new responsibilities. A new Managing Director was appointed in July 2016 and a capacity review undertaken to reflect the increasing levels of responsibilities and funding including the transition to mayoral governance arrangements effective from May 2017. The transition to a new Mayoral Combined Authority was approved by each of the constituent councils. A revised Strategic Economic Plan was established. A new constitution was agreed in consultation with the constituent authorities, underpinning the new statutory framework established by the Tees Valley Combined Authority (Functions and Amendment) Order 2017; including arrangements for Audit and Scrutiny. The Authority also agreed its first Investment Plan setting out its financial framework for the 2017-21 period, and established a clearer budget-setting process. An Assurance process was agreed with central government.
3. Measures taken during this transition year helped to prepare the Authority for the election of the new Tees Valley Mayor on 4th May 2017, at which point the new governance arrangements became fully established.

Scope of Responsibility

4. The Tees Valley Combined Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Combined Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

5. The Authority has established governance arrangements which are consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) Framework - Delivering Good Governance in Local Government. A copy of the Authority's Constitution is available on its website at

<https://teesvalley-ca.gov.uk/wp-content/uploads/2017/05/TVCA-Constitution-Document-2017.pdf>.

The Annual Governance Statement sets out how the Authority has complied with the framework and also meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015 in relation to a review of the effectiveness of the Internal Control system.

The Purpose of the Governance Framework

6. The governance framework comprises the systems and processes, and culture and values that direct and control our activities and through which we account to, engage with and lead the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
7. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Combined Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
8. A governance framework has been in place at the Tees Valley Combined Authority for the year ended 31 March 2017 and up to the date of approval of the statement of accounts. A revised Constitution was agreed by the Authority in February 2017 to reflect governance arrangements post-election of the Tees Valley Mayor in May 2017. This Constitution has been developed in consultation with the Constituent Authorities and in parallel to the legislative process which defines the specific powers and functions transferred to the Combined Authority and the Mayor.
9. The Combined Authority has maintained a clear position that the establishment of the Mayor should be accompanied by effective checks and balances, with the constituent authorities continuing to play a strong role in governance, and with transparent decision-making and effective scrutiny. These principles were embedded in the governance scheme put forward by the Combined Authority, and were confirmed by public consultation, and a series of constitutional workshops held in each council, and with the Overview and Scrutiny Committee.

The Authority's Vision

10. There is a clear vision of our purpose and intended outcomes for citizens and service users that is clearly communicated, both within and outside the organisation. The ambition is for Tees Valley to become a high value, low carbon, diverse and inclusive economy:-
 - a. rapid and sustainable economic growth to benefit the Tees Valley and the whole of the UK;
 - b. improved life chances and opportunities for communities so that local people directly benefit through improved prosperity and wellbeing; and
 - c. real strength and vibrancy as a place in which to live, work, study, visit and invest.
11. These aspirations and goals, along with the Combined Authority's plan for delivering them, are laid down in the refreshed Strategic Economic Plan (SEP) and in a new Investment Plan setting out deliverables by 2026 and 2040. Our ambition incorporates economic, social and environmental priorities and will allow all partners to work towards a sustainable and socially responsible Tees Valley.
12. Underlying this ambition is a commitment to improving the lifetime opportunities for local people, tackling some of the difficult challenges of social exclusion, providing opportunities across all of the Tees Valley including rural areas and disadvantaged communities, thereby ensuring that all citizens are able to share in the benefits of economic growth. The SEP is focused around six thematic building blocks which reflect the main priorities and areas of activities over the next ten years to unlock transformational growth:-
 - a. **Business Growth:** Further increase jobs and business density through targeted support to create and attract new companies and to grow businesses and sectors with high growth
 - b. **Research, Development, Innovation & Energy:** Further enhance productivity in all core sectors through the commercialisation of knowledge;
 - c. **Education, Employment & Skills:** Ensure a labour market which meets the needs of local business and supports the lifetime opportunities of all our residents;
 - d. **Place:** Promote the Tees Valley as the preferred location in the UK for energy intensive indigenous firms and Foreign Direct Investment and create the conditions necessary to attract businesses and individuals with a focus on vibrant town centres;
 - e. **Culture:** Change the external perceptions of Tees Valley through the arts, cultural and leisure offer, create places that attract and retain businesses and business leaders, and make the area an attractive place to live, work and visit; and
 - f. **Transport & Infrastructure:** Facilitate local, regional, national and international road, rail and broadband connectivity through collaborative investment in physical infrastructure.

13. A set of indicative activities and output targets is identified within the Strategic Economic Plan (SEP) for the six priorities as well as an assessment of overall impact.
14. The Strategic Economic and Investment Plan sets out our priorities and the significant actions we will take. These, in turn, shape the activity of our various services and how we will focus our resources. We are clear where we need to get to and what we need to do to get there.
15. An Investment Plan was agreed in March 2017, setting out how the Combined Authority will use its resources to deliver the Strategic Economic Plan, during the 2017-21 period. The Investment Plan will be reviewed in autumn 2017, in line with Constitutional arrangements and to reflect the views of the incoming Mayor, and will be reviewed annually thereafter.

The Governance Framework

16. Arrangements are in place to review our vision and its implications for the authority's governance arrangements. The annual strategic planning process, engagement and participation with partners and stakeholders will ensure the authority's vision remains relevant and meets the needs of local communities. There will be regular reviews of the local Code of Corporate Governance to ensure that it is up to date and effective.
17. Arrangements are in place to measure the quality of our services, to ensure they are delivered in line with our objectives and for ensuring that they provide value for money. There are performance management arrangements in place including an annual appraisal scheme for staff. Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job descriptions/ person specifications.
18. The roles and responsibilities of Authority members and employees are clearly documented. The Authority's Constitution sets out how the Authority operates. It incorporates a scheme of delegation, indicates responsibilities for functions and sets out how decisions are made. The Constitution is subject to regular review, with substantive changes requiring the unanimous agreement of the Authority's Cabinet.
19. The Constitution includes Rules of Procedure and various Codes and Protocols that set out standards of behaviour for members and officers.
20. During the year a system of scrutiny was in place allowing the scrutiny function to:-
 - a. review or scrutinise decisions made, or other action taken, in connection with the discharge of any functions which are the responsibility of the Combined Authority;
 - b. make reports or recommendations to the Combined Authority with respect to the discharge of any functions which are the responsibility of the Combined Authority

- c. Make reports or recommendations to the Combined Authority on matters that affect the authority's area or the inhabitants of the area
21. In the new constitution Overview and Scrutiny can "call-in" for review or scrutinise decisions made by the Combined Authority, but not implemented, and to direct that that decision is not implemented while it is under review or scrutiny.
22. The Combined Authority has secured provision of certain of its administrative functions (including legal, procurement, finance, human resources and ICT) with a view to their more economical, efficient and effective discharge through delegation to Stockton-On-Tees Borough Council
23. A range of financial and HR policies and procedures are in place, as well as risk management processes which are in the process of being strengthened under a review of the strategy. Investments adhere to the single pot assurance framework agreed with government to ensure we are open and accountable for our decisions. It will be reviewed again later in the year to ensure it remains fit for purpose. There are comprehensive budgeting systems in place and a robust system of budgetary control, including quarterly and annual financial reports, which indicate financial performance against forecasts.
24. The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Chief Finance Officer (under Section 73 of the Local Government Act 1985) fulfils this role through the following:
 - a. Attendance at meetings of Directors Management Team, helping it to develop and implement strategy and to resource and deliver the Authority's strategic objectives sustainably and in the public interest;
 - b. Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
 - c. Alignment of medium term business and financial planning processes;
 - d. Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively; and
 - e. Ensuring that the finance function is resourced to be fit for purpose.
25. The role of the Chief Financial Officer (CFO) is currently provided through Stockton-on-Tees Borough Council but with effect from August 2017 the Combined Authority will be employing directly its own CFO working across both the Tees Valley Combined Authority and the new South Tees Mayoral Development Corporation.
26. The Combined Authority has an Audit and Governance Committee which, undertakes an assurance and advisory role to:

Audit

 - a. To consider the effectiveness of the TVCA's risk management arrangements, the control environment and associated anti-fraud and anti-corruption

arrangements, and seek assurance from the Chief Officers, Internal Audit and External Audit that action is being taken on risk related issues within the organisation.

- b. To consider internal audit annual reports and opinions; and consider a review of the effectiveness of the system of internal audit.

Standards

- c. To promote and maintain high standards of conduct by TVCA members and co-opted members.
 - d. To ensure the TVCA members and co-opted members observe the Members' Code of Conduct.
 - e. To advise the Combined Authority Board on the adoption or revision of the Members' Code of Conduct.
 - f. To monitor complaints received by the TVCA in respect of Member conduct.
 - g. To conduct hearings following investigation and determine complaints made against members and co-opted members.
 - h. Where a member or co-opted member is found to have failed to comply with the Code of Conduct to take such action as may be necessary to promote and maintain high standards of conduct, in accordance with the powers available to the Committee.
27. The Authority recognises the need to review its Counter fraud strategy policy designed to encourage prevention, promote detection, ensure effective investigation where suspected fraud or corruption has occurred; and prosecute offenders where appropriate.
28. We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Commercial and Legal Manager at Redcar and Cleveland Borough Council is the Authority's designated Monitoring Officer and a protocol is in place with all directors, to safeguard the legality of all Authority activities. All Cabinet Reports are considered for legal issues before submission to members.
29. Arrangements for confidential reporting (whistle-blowing) and for receiving and investigating complaints are in place. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Authority's business, they can easily report their concerns. The whistle blowing arrangements support the maintenance of a strong regime of internal control.
30. Members are experienced in their roles for the Combined Authority, and undertake designated portfolio roles in support of Cabinet decision-making; supported by lead officers for that portfolio area. The Authority recognises that managing the performance of all of employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role focusing on strengths and highlighting areas of weakness, job related training,

and on-going evaluation of the extent to which employees understand and support the values of the Authority.

31. Channels of communication have been established with all sections of the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that services meet the needs of local people. The Authority maintains an active social media presence, and ensures full transparency of its policies and decision-making.
32. We continue to work closely with all our partners including the local enterprise partnership, other public bodies, the Voluntary, Community and Social Enterprise (VCSE) sector and the private sector. We have established proportionate governance arrangements for all partnerships.
33. The Combined Authority has agreed to the formal designation of the South Tees area as a Mayoral Development Corporation (to be named the "South Tees Development Corporation" (STDC)). The Mayor is to formally propose the creation of the STDC to the Secretary of State, thereby initiating the next stage of the statutory process. In parallel, the Authority's Cabinet have agreed a constitution for the STDC which sets out the statutory framework, its core objectives, how decisions are made, board arrangements and powers. It determines the checks and balances on the application of those powers, getting the right balance between the freedom of the STDC to make commercial arrangements to meet its objectives, with the need to be prudent and accountable as a public body. The constitution includes a "referral mechanism", to ensure that decisions which generate significant risks and liabilities have to be escalated to the Combined Authority for ratification. Other aspects of the constitution, including the role of a joint Combined Authority/STDC Finance Director, and its Audit Committee.

Review of Effectiveness

34. The Combined Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.
35. The Managing Director and Chief Financial Officer have directed, co-ordinated and overseen the review and its findings have been reported to the Audit and Governance Committee for their consideration of the Annual Governance Statement.
36. The review is informed by a number of assurances gathered from all available sources and in particular:-
 - a. Assurances from senior officers responsible for relevant specialist areas.

- b. Stockton Borough Council provides the internal audit service to the Combined Authority. Internal Audit has liaised with the relevant statutory officers during the year to assist in the adequacy and effectiveness of the Authority's existing systems of internal control. The Head of Internal Audit's annual assurance opinion is reproduced below from his annual report to the Audit and Governance Committee –

"It is my opinion that the Combined Authority continues to have an appropriate, and overall, an effective system of internal control, upon which it can place reasonable reliance to deliver its objectives, and detect fraud and other malpractice within a reasonable period of time. Where weaknesses have been identified through internal audit work, we have worked with management to agree appropriate corrective actions and a timescale for introduction."

- c. Monitoring by the Authority and the Department of Communities and Local Government of an Assurance Process, agreed with government as a condition for exercising devolved responsibilities for funding (through the so-called "single pot" of unringfenced funding). The Authority has provided a high level of assurance through this process, with measures taken to improve transparency and clarify the requirements for due diligence on individual investments.
37. The outcome of the review of effectiveness provided us with the necessary assurance that no significant issues were identified. The findings of the review have been reported to the Audit and Governance Committee and the actions required to improve it. The areas to be addressed with actions are outlined in the improvement plan.
38. We propose over the coming year to take steps to implement the improvement plan to further enhance the Authority's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review and we will monitor their implementation and operation as part of the next annual review

IMPROVEMENT PLAN

Action	Outcome	Responsibility	By When
Review the Local Code of Corporate Governance	Updated code	Governance Manager	31 st March 2018
Review and update the Authority's Constitution including scheme of delegation	Updated constitution	Managing Director	31 st March 2018
Review of Assurance Framework	Updated Framework	Investment Director	31 st December 2017
LEP "Buddy" Review	Update as required	Strategy Director	30 th September 2017
Update Risk Management Strategy	Updated Strategy	Governance Manager	30 th September 2017
Update Counter Fraud Strategy	Updated Strategy	Head of Internal Audit	31 st March 2018

By order of the authority

Signed:

A Lewis
Managing Director

Date:

Signed:

B Houchen
Mayor

Date

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AGENDA ITEM 10

REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

5th SEPTEMBER 2017

REPORT OF THE STRATEGY DIRECTOR

SUMMARY

This report presents the Tees Valley Combined Authority Risk Management Strategy and the Tees Valley Combined Authority Corporate Risk Register as at the end of the second quarter of 2017/18.

RECOMMENDATIONS

- i. It is recommended that Audit and Governance Committee approve the Tees Valley Combined Authority Risk Management Strategy.
- ii. It is recommended that Audit and Governance Committee consider and comment on the contents of the Tees Valley Combined Authority Corporate Risk Register.

DETAIL

1. The Risk Management Strategy attached at **Appendix 1** sets Tees Valley Combined Authority's approach to risk management and integrates the requirements set out in the Single Pot Assurance Framework.
2. The Combined Authority will demonstrate a proactive approach to risk management which is based on the following key principles:
 - 2.1. Risk Management activity will be aligned to corporate and business plan aims, objectives and priorities. It will encompass all strategic and operational areas that may prevent the Combined Authority from fulfilling its strategic aims.
 - 2.2. It will anticipate and take preventative action to avoid risk rather than manage the consequences.
 - 2.3. It will seek to realise opportunities that arise from the monitoring of risk.
 - 2.4. A consistent approach for the identification, assessment and management of risk will be embedded throughout the organisation.

- 2.5. Risk control and mitigation will be effective, appropriate, proportionate and affordable. Risk controls will not be implemented where the cost and effort is disproportionate to the expected benefits.
- 2.6. All employees are required to take responsibility for the effective management of risk throughout the organisation.
- 2.7. The Managing Director and Directors are responsible for implementing this policy and for the escalation of risks to the Corporate Risk Register as required.
3. The Corporate Risk Register attached at **Appendix 2** covers the period 1st July 2017 to 30th September 2017 and details risks that affect the operations of the Combined Authority as a whole. They have been reviewed and assessed using the assessment method included in the Risk Management Strategy.
4. There are two risks that have been assessed as high risks in this period.
5. No Business Plan risks have been escalated to the Corporate Risk Register during the last quarter.
6. All risks are constantly being managed and reviewed.
7. The Corporate Risk Register will be shared with Audit and Governance Committee on a quarterly basis.

FINANCIAL IMPLICATIONS

8. There are no direct financial implications arising from this report.

RECOMMENDATIONS

- i. It is recommended that Audit and Governance Committee approve the Tees Valley Combined Authority Risk Management Strategy.
- ii. It is recommended that Audit and Governance Committee note the contents of the Tees Valley Combined Authority Corporate Risk Register.

LEGAL IMPLICATIONS

9. There are no direct financial implications arising from this report.

RISK ASSESSMENT

10. This content of this report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

11. None required.

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TEES VALLEY
COMBINED
AUTHORITY

RISK MANAGEMENT STRATEGY

JUNE 2017



Introduction

Tees Valley Combined Authority (the Combined Authority) is committed to delivering its strategic objectives whilst having a clear focus on the awareness and management of threats that may impact its expected outcomes.

As part of this, consideration is given to the potential risks and opportunities that face our activities on an ongoing basis. The responsibility of managing risk sits with all officers and is driven with a focus on actively being aware of all risks and not risk avoidance.

Risk can be defined as an uncertain event, or set of events that, should it occur, will have an effect on the achievement of business activity. Threat is an uncertain event that could have a negative impact, and opportunity is an uncertain event that has the ability to provide a positive outcome. The process to identify, assess and manage business risk is risk management.

This strategy focusses on monitoring risk associated with the key areas of activity that will ensure the strategic aims of the Combined Authority are met.

Purpose and Key Principles

This document sets out the Combined Authority's approach to risk management and integrates the risk management requirements as detailed in the Single Pot Assurance Framework.

It aims to explain the purpose of the risk management, and what is expected of employees to achieve the desired outcomes.

The key principle of the Corporate Risk Register is to account for risks that face the Combined Authority as a whole.

Risk management helps the organisation to:

- Make informed decisions
- Overcome threats impacting on delivery
- Provide confidence in our ability to achieve objectives
- Protect its assets and resources
- Make informed investment decisions

The Combined Authority will demonstrate a proactive approach to risk management which is based on the following key principles:

- Risk Management activity will be aligned to corporate and business plan aims, objectives and priorities. It will encompass all strategic and operational areas that may prevent the Combined Authority from fulfilling its strategic aims.
- It will anticipate and take preventative action to avoid risk rather than manage the consequences.
- It will seek to realise opportunities that arise from the monitoring of risk.
- A consistent approach for the identification, assessment and management of risk will be embedded throughout the organisation.
- Risk control and mitigation will be effective, appropriate, proportionate and affordable. Risk controls will not be implemented where the cost and effort is disproportionate to the expected benefits.
- All employees are required to take responsibility for the effective management of risk throughout the organisation.
- The Managing Director and Directors are responsible for implementing this policy and for the escalation of risks to the Corporate Risk Register as required.

Risk Management Structure and Process

The management of risk is captured within all areas of activity, as represented in the diagram on the next page.

An overarching risk register covering strategic and key risks is incorporated into the Corporate Risk Register.

The role of the Governance team provides oversight across all risk activities within the organisation and ensures there is a consistent approach to risk management reporting and escalation that fully meets the organisation's needs.



Risk management follows a cyclical process and is a proactive activity to help identify and manage risks to ensure the Combined Authority’s strategic aims, and delivery of the Business Plan can be achieved through regular monitoring.

The process follows 5 steps as demonstrated in the diagram above and is maintained through risks being clearly recorded within a risk register. An example of this can be found in Appendix 1.

Confirm the business plan – The objectives and key outputs of the business plan should be clearly understood before a risk assessment is completed. The business plan is all key actions over the coming year but overarching strategic risks are captured in addition to this on the Corporate Risk Register.

Identify the risk – Consideration should be given to any threats that could impact on the organisation’s ability to deliver the objectives. Risks can materialise from a number of sources with some examples being highlighted on page 6 of this document.

Evaluate the risk – Once risks have been identified, consideration needs to be given to the likelihood of the risk materialising and the impact it will have on delivery of objectives. Risks should be evaluated by determining the risk magnitude, which is a combination of likelihood and consequence. Decisions can then be made about whether the risk is acceptable or further action is required.

Treat the risk – Once the level of risk has been identified, consideration should be given to determine and take appropriate steps to ensure the risk does not have a detrimental effect on delivery of the objective. This can include Tolerating the risk and no further action being required, Treating the risk to reduce the opportunity for the risk to materialise, Transferring responsibility for the risk to another party (e.g. Insurance), or taking steps to Terminate the risk from occurring.

Monitor and review – Risks are regularly monitored to ensure mitigation measures are effective and the level of risk remains at an acceptable level, or further actions or a change in approach can be sought. Risks are monitored and addressed at a business level with further assurance and oversight of risk management of corporate risks being directed through the Audit and Governance Committee for risks with a score of 15 and above, and the Combined Authority Cabinet where appropriate.

Risk Appetite

Tees Valley Combined Authority will endeavour to keep all risks to as low a level as reasonably practical and will ensure risk activity is proportionate to the severity that each risk brings to the delivery of our objectives. We will demonstrate a focus on risk awareness but not be risk averse.

As an organisation we strive to excel in the delivery of our strategic aims and in achieving this, it may be necessary to extend our risk appetite in order to achieve optimum delivery. Any extension on the risk appetite will be undertaken following a review of the individual business case and will not threaten the organisation's statutory and legal obligations.

Tees Valley Combined Authority recognises five key risk categories that have the opportunity to create a significant impact on business operations if not managed effectively. These include Finance, Reputation, Delivery, Legal & Governance and Health & Safety, details of the extent of risk for each is captured in the table below.

Consequence	Minimal (1)	Minor (2)	Significant (3)	Major (4)	Critical (5)
Financial	Costs could increase by up to 2.5% above budget.	Costs could increase by between 2.5% and 5% above budget.	Costs could increase between 5% and 7.5% above budget.	Costs could increase between 7.5% and 10% above budget.	Costs could exceed budget by greater than 10%.
Reputation	Minor poor media coverage or negative stakeholder relations contained locally over a short period of time including social media.	Poor media coverage or negative stakeholder relations contained locally, extending to television coverage over a short period of time.	Inability to maintain effective relations with stakeholders. Poor local media coverage over a prolonged period.	Inability to maintain relations with stakeholders. Potential for national media coverage impacting on stakeholder confidence in Tees Valley Combined Authority.	Inability to deliver political policies. Serious negative media coverage over a sustained period of time leading to political and/or public loss of confidence in Tees Valley Combined Authority.
Delivery	Threat could have a minimal impact on the quality of, or delivery delays of up to 3 months.	Threat could have a minor impact on the quality of, or delivery delays of between 3 and 6 months.	Threat could have a significant impact on the quality of, or delivery delays of between 6 and 9 months.	Threat could have a significant impact on the quality of, or delivery delays of between 9 and 12 months.	Threat could have a critical impact on the quality of, non-delivery, or delivery delays of greater than 12 months.
Health & Safety	Known H&S threats effectively managed through appropriate control measures.	Potential for minor injury to occur that can be satisfactorily managed through Safety Management Systems.	Potential for moderate injury or dangerous occurrence to be sustained, possible reporting to the Regulatory body.	Potential for breach in H&S rules resulting in likely intervention by the Regulatory body.	Severe injury or fatality likely to occur. Regulatory body intervention probable with threat of statutory enforcement or prosecution.
Legal	All constitutional and legislative requirements have been met and Tees Valley Combined Authority is action within its statutory powers.	There is potential for legal action but measures to mitigate against any action can be demonstrated and no legislation has been breached.	Discretionary opinion on the interpretation of legislation or contractual terms is applied to confirm Tees Valley Combined Authority's ability to proceed with activities.	Discretionary opinion is not followed and action taken contrary to advice of legal colleagues.	Failure to comply with legislation and contractual obligations leading to the possibility of a litigation, arbitration or adjudication claim being brought. Tees Valley Combined Authority exceeds its legislative powers (Ultra Vires).

Note: The above parameters are the agreed standard for the purpose of this strategy however due to the broad range of activities the Combined Authority undertakes a flexible approach will be taken commensurate to the potential impact of the individual activity being assessed.

Management of Risk

Once assessed, risks will be recorded on a risk register to assist ongoing management, and will also be mapped into a scoring matrix for a picture of overall risk to be developed. This will enable the organisation to clearly determine its overall risk profile and the key risks requiring immediate intervention. Risk monitoring will be undertaken at regular intervals with reporting to Senior Management monthly to ensure risks are being effectively managed, with independent assurance quarterly at the Audit and Governance Committee.

Business Plan risks that are deemed to affect the operations of the Combined Authority as a whole will be escalated to the Corporate Risk Register.

5 - Very high Very likely to occur	5	10	15	20	25
4 - High More likely to occur than not	4	8	12	16	20
3 - Medium Could occur at some point	3	6	9	12	15
2 - Low More likely not to occur	2	4	6	8	10
1 - Very low Very unlikely to occur	1	2	3	4	5
Probability	1 Minimal	2 Minor	3 Significant	4 Major	5 Critical
	Impact				

High Risk

Risk is beyond tolerance levels and urgent action is required to demonstrate delivery can be achieved

Medium Risk

Risk is considered to have a significant impact on delivery of objectives and targeted intervention is required

Low Risk

Level of risk indicates no major concerns to threaten delivery of objectives. Remedial action should be considered if appropriate

Appendix 1 – Template Risk Register

Ref	Risk Description	Impact (1-5)	Likelihood (1-5)	Score (1-25)	Change since last	Current Controls	Further Controls Required	Deadline	Comments	Review Date



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Corporate Risk 2017/18 Q2

Ref	Risk description	Current assessment				Change since last Q	Current Controls	Further Controls Required	Deadline	Comments	Review Date
		Impact (1-5)	Probability (1-5)	Score (1-25)							
C01	Impact of Brexit on EU funding, including financial uncertainty and economic instability that affects national policy in relation to devolution and impact on ability to progress TVCA devolution strategy	4	4	16	-	<ul style="list-style-type: none"> On going engagement with Leaders & Mayor, chief officers and Government departments Continuation of focus on TVCA delivery of objectives and SEP Secured ESIF guarantee from Government 	<ul style="list-style-type: none"> Engagement with Government on future funding plans post Brexit Liaison with other CAs/LEPs 	Ongoing		Dec-17	
C02	Failure to operate within TVCA constitution	4	2	8	-	<ul style="list-style-type: none"> Updates and reports to TVCA Board Briefing and engagement with Constituent Authorities members taken place Public Consultation undertaken Overview & Scrutiny Committee meeting regularly 				Dec-17	
C03	Failure to secure appropriate funding from Government for the operation of the South Tees Development Corporation	4	3	12	^3	<ul style="list-style-type: none"> STDC established as legal entity 1st Aug 17 Official launch 23rd August Continued dialogue with Government 				Dec-17	
C04	Failure to deliver commitments entered into in the devolution deal	3	3	9	-	<ul style="list-style-type: none"> Implementation Plan agreed with Government Bi-monthly meeting with Government officials and on-going dialogue/reporting Management of Business Plan Leaders met with Secretary of State 				Dec-17	
C05	Failure to secure sufficient additional resources to fund proposed activity	3	3	9	-	<ul style="list-style-type: none"> Robust Medium Term Financial Plan, Treasury Management Strategy and Investment Plan agreed by TVCA Board Submission of high calibre bids for external funding Identifying opportunities for efficiency and greater impact 	<ul style="list-style-type: none"> Mayor to meet with Government Ministers 			Dec-17	
C06	Failure to manage funding in order to deliver maximum value for money	3	3	9	-	<ul style="list-style-type: none"> Creation and utilisation of Assurance Framework Investment Plan agreed and operational 	<ul style="list-style-type: none"> Investment plan to be reviewed 	Autumn 17		Dec-17	

Corporate Risk 2017/18 Q2

Ref	Risk description	Current assessment				Change since last Q	Current Controls	Further Controls Required	Deadline	Comments	Review Date
		Impact (1-5)	Probability (1-5)	Score (1-25)							
C07	Failure to deliver the existing pipeline of funding commitments	3	3	9	-	<ul style="list-style-type: none"> • Creation and utilisation of Development Fund to provide upfront investment in feasibility work • Programme monitoring and review • Assurance Process • Strengthened capacity with addition of new Finance Director and Legal & Commercial Manager posts 	<ul style="list-style-type: none"> • Investment plan to be reviewed 	Autumn 17		Dec-17	
C08	Failure to secure agreement on the future investment priorities	3	3	9	-	<ul style="list-style-type: none"> • TVCA Board has overall responsibility developing & delivery of SEP, investment decisions and allocation of resources. • Proposals developed at early stage with Leaders & Mayor, LEP members, chief officers, partners and Government departments • Agreement to Investment Plan • Investment report on every Cabinet agenda as standing item • First invitation for proposals to the Tees Valley Investment Fund has taken place and pipeline agreed • Oversight by TV Management Group 	<ul style="list-style-type: none"> • Next round of EOIs to be invited • 6 month review of Investment Plan to be undertaken 	Autumn 17 Autumn 17		Dec-17	
C09	Failure to adequately communicate and explain the TVCA and Mayor functions and role may mean expectations are not managed	3	3	9	-	<ul style="list-style-type: none"> • Acting Marketing & Comms Manager appointed • Communications Plan in place 	<ul style="list-style-type: none"> • Engagement Plan to be developed 			Dec-17	
C10	Fail to ensure resources are spent on objectives TVCA is empowered to deliver	3	3	9	-	<ul style="list-style-type: none"> • Investment Plan agreed and operational • Assurance framework 	<ul style="list-style-type: none"> • Review of Investment Plan and Assurance Framework to be undertaken 	Autumn 17		Dec-17	
C11	Failure to provide sufficient capacity to deliver TVCA functions	3	3	9	-	<ul style="list-style-type: none"> • Oversight by Senior Management Team 				Dec-17	
C12	Fail to pass the first Gateway Review	5	3	15	-	<ul style="list-style-type: none"> • Bi-monthly meeting with Government officials and on-going dialogue • Assurance framework • Internal Audit 	<ul style="list-style-type: none"> • Mayor to meet with Government Ministers 			Dec-17	
C13	Fail to maximise influence on regional/national level	3	3	9	-	<ul style="list-style-type: none"> • LEP Network representation • Mayoral Role 	<ul style="list-style-type: none"> • Mayor to meet with Government Ministers and other stakeholders 			Dec-17	

Corporate Risk 2017/18 Q2

		Current assessment								
Ref	Risk description	Impact (1-5)	Probability (1-5)	Score (1-25)	Change since last Q	Current Controls	Further Controls Required	Deadline	Comments	Review Date
C14	Fail to build and maintain relationships with key partners	3	3	9	-		<ul style="list-style-type: none"> Engagement Plan to be developed 			Dec-17

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AGENDA ITEM 11

**REPORT TO THE TEES VALLEY
COMBINED AUTHORITY AUDIT AND GOVERNANCE COMMITTEE**

5th SEPTEMBER 2017

REPORT OF DIRECTOR OF FINANCE

TREASURY MANAGEMENT STRATEGY ANNUAL REPORT 2016/17

SUMMARY

This report informs Members of the performance against the treasury management and prudential indicators set in the Treasury Management Strategy approved by the TVCA Board in April 2017.

RECOMMENDATIONS

Members note the content of the report.

DETAIL

Introduction

In April 2017 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.

The Authority's treasury management strategy for 2016/17 was approved at a meeting of the Authority on 4th April 2017. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

External Context

Economic background: Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in

the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% in April 2016 to 2.3% in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

Financial markets: Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.

After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.

Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

Credit background: Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused

banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Authority's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Authority's treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

Local Context

On 31st March 2017, the Authority had net investments of £78.058m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £m
General Fund CFR	0
Total CFR	0
Less: Other debt liabilities	0
Borrowing CFR	0
Usable reserves	87.316
Working Capital	-9.258
Net Investment	78.058

The Net Investment figure represents the authority's cash and cash equivalent and short term investment funds held at the 31st March 2017 inclusive of accrued interest. The treasury management position as at 31st March 2017 is show in table 2 below.

Table 2: Treasury Management Summary

	31.3.17 Balance £m
Long-term borrowing	0
Short-term borrowing	0
Total borrowing	0
Long-term investments	0
Short-term investments	77,000
Cash and cash equivalents	1,058
Total investments	78,058
Net Investments	78,058

Borrowing Activity

The Authority at the 31st March 2017 had limited powers to borrow and therefore did not enter into any borrowing agreements. All expenditure of a capital nature was funded through grants and contributions.

Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17, the Authority's investment balance ranged between £35m and £77m million due to timing differences between income and expenditure. These investments **generated £180k in interest during 2016/17**. The year-end investment position is show in table 3 below.

Table 3: Investment Position

Counterparty	Amount £	Rate %	Start Date	Maturity Date
Goldman's	5,000,000	0.50%	06-Mar-17	05-Jun-17
Lloyds	5,000,000	0.65%	06-Oct-16	06-Apr-17
Standard Life	5,000,000	0.29%	06-Oct-16	Money Market Fund
Federated	5,000,000	0.29%	06-Oct-16	Money Market Fund
Legal & General	5,000,000	0.28%	06-Oct-16	Money Market Fund
Blackrock	5,000,000	0.23%	06-Oct-16	Money Market Fund
Insight	5,000,000	0.28%	06-Oct-16	Money Market Fund
Barclays	10,000,000	0.45%	12-Oct-16	12-Apr-17
Santander	10,000,000	0.40%	12-Oct-16	95 Day Notice
Lloyds	5,000,000	0.60%	05-Dec-16	05-Jun-17
Nat West Bank	2,000,000	0.01%	12-Apr-16	Call Account
Hull	5,000,000	0.38%	07-Mar-17	07-Jun-17

Slough	5,000,000	0.43%	06-Mar-17	06-Sep-17
Telford	5,000,000	0.45%	07-Mar-17	07-Sep-17
	77,000,000	0.37%		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Authority diversified into money market funds which allowed the Authority the flexibility to have access to funds immediately. Also due to the high level of investments this diversification was required so that limits with counterparties set within the treasury management strategy were not breached during the year. Due to the developing capital expenditure plans of the Authority it was not prudent to diversify further into higher yielding asset classes during 2016/17. The progression of risk and return metrics are shown in the extracts from Arlingclose quarterly investment benchmarking in table 4 below.

Table 4: Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Rate of Return
31.12.2016	5.47	A+	100%	36	0.34%
31.03.2017	4.76	A+	81%	43	0.39%
Similar LAs	4.6	A+	74%	66	0.67
All LAs	4.3	AA-	60.0%	47	1.14%

*Weighted average maturity

The Authority's best performing investments in 2016/17 were those with banks and other financial institutions where there were longer maturity dates. £35m was held in these funds across five counterparties at the 31st March 2017.

Compliance Report

The Director of Finance is pleased to report that all treasury management activities undertaken during 2016/17 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 5 below.

Table 5: Investment Limits

	2016/17 Maximum	31.3.17 Actual*	2016/17 Limit	Complied
UK Banks, Foreign Banks and other organisations	£35m	£35m	£20m each	✓

Council's Own Clearing bank	£19m	£2m	£20m	✓
UK Building Societies without credit ratings	£0m	£0m	£7m each	✓
UK Local Authorities	£15m	£15m	£10m each	✓
UK Government DMO, Treasury Bills, Treasury Gilts & Instruments	£12m	£0m	Unlimited	✓
Money Market Funds	£25m	£25m	£5m each	✓

**see table 3 above for values with individual counterparties as at 31st March 2017.*

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	2016/17 Maximum	31.3.17 Actual	2016/17 Operational Boundary	2016/17 Authorised Limit	Complied
Borrowing	£0	£0	£2m	£5m	✓

The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

As the Authority has limited borrowing powers which it did not exercise during the year these limits were not breached.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal invested was:

	31.3.17 Actual	2016/17 Limit	Complied
Upper limit on fixed interest rate exposure	65%	100%	✓
Upper limit on variable interest rate exposure	35%	100%	✓

Fixed rate investments and borrowings are those where the rate of interest was fixed at the point of investment. All other instruments are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.3.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	£0	0%	25%	✓
12 months and within 24 months	£0	0%	40%	✓
24 months and within 5 years	£0	0%	60%	✓
5 years and within 10 years	£0	0%	80%	✓
10 years and above	£0	0%	100%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2016/17	2017/18	2018/19
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied	✓	✓	✓

Prudential Indicators

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

This report compares the approved indicators with the outturn position for 2016/17. Actual figures have been taken from or prepared on a basis consistent with, the Authority's statement of accounts.

Capital Expenditure: The Authority's capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2016/17 Actual £m
General Fund	28.339
Total Expenditure	28.339
Government Grants	(28.339)
Total Financing	(28.339)

Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.17 Estimate £m	31.03.17 Actual £m	Difference £m
General Fund	0	0	0
Total CFR	0	0	0

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt and CFR	31.03.17 Estimate £m	31.03.17 Actual £m	Difference £m
Total debt	0	0	0
Capital financing requirement	0	0	0
Headroom	0	0	0

The Authority's capital expenditure during 2016/17 was fully funded through government grants and as such there was no requirement for it to enter into debt.

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31.03.17 Estimate %	31.03.17 Actual %	Difference %
General Fund	0%	0%	0%

FINANCIAL IMPLICATIONS

1. Treasury Management Investment activity during 2016/17 generated income of £180k.

LEGAL IMPLICATIONS

2. None.

RISK ASSESSMENT

3. This Treasury Management Strategy annual report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

4. Not applicable.

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Tees Valley Combined Authority Audit & Governance

Forward Plan 2017/18

Standing Items

Minutes from the Previous Meeting
Announcements from the Chair
Forward Plan
Date and Venue of the Next Meeting

Date	Venue	Item / Responsible Officer
5th September 2017 at 2pm	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Confirmation of Chair/Vice Chair Terms of Reference Internal Audit Report External Audit - Progress Report Corporate Governance Statement - Approval Statement of Accounts - Approval Corporate Risk Register External Audit - Audit Completion Report and Value for Money Opinion
1 st December 2017 at 10am	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit Report Corporate Risk Register External Audit Annual Letter External Audit Progress Report Anti-fraud & Corruption Agreement
28 th February 2018 at 10am	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit Report Corporate Risk Register External Audit Progress Report External Audit Strategy Memorandum (Plan) Internal Audit Charter & Audit Plan

Items to be scheduled:

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